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# Nation's Business®

## Teenage Workers: Where Are They?

*How Population And  
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Creating A Crisis For  
Employers—And What  
They Are Doing To  
Head It Off.*



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## THE NATION'S BUSINESS

A bill before Congress would require most companies to provide a new employee benefit—unpaid but job-protected parental leave for up to 18 months. (Page 12)



PHOTO: GENE STEIN—WESTLIGHT

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The cost of living is headed up again; tax reform will hit apartment construction; manufacturers target quality to regain edge; farmers won't benefit from Chernobyl.

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The White House Conference on Small Business will produce sweeping recommendations for changes in federal regulations and policies.

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What are your opinions on retaining the SBA in its present form, a moratorium on tax law changes, an extra Social Security increase?

## COVER STORY

The help wanted signs that have become a permanent fixture in many stores are the most obvious signals of

a serious problem for many companies: the fast-increasing shortage of entry-level workers.



PHOTO: CHRIS CROSS—UNPHOTO

### 18 Teenage Workers: Where Are They?

As the baby-bust generation moves into the job market, they are finding that there is lots of room at the bottom. For business, creative approaches to filling entry-level jobs are becoming essential to survival.

### 21 The Ironies Of The Youth Job Market

On one hand there are the entry jobs at minimum wage that nobody seems to want, and on the other is an over-educated work force that is looking for better jobs. The dilemma is going to call for all the creativity business can bring to bear.

### 24 The Senior Citizen Solution

More companies are turning to the growing ranks of senior citizens to fill vacancies left by the shrinking number of young people, because older workers usually bring greater knowledge, experience, willingness and reliability to the job.

Cover: Brian Smith



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## MANAGING YOUR BUSINESS

Today's campers look for more out of a summer than exercise. The National Computer Camp in Orange, Conn., is one of the new specialty camps. (Page 26)



PHOTO: NATIONAL COMPUTER CAMPS

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Summer camps are not what they used to be. Owners who stay tuned to the latest trends find new ways to attract happy campers.

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Outdated local government regulations unnecessarily drive up the costs of building homes. Innovative techniques can change that.

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Social pressures encourage successful business people to look the part—and many are turning to cosmetic surgery to help them do just that.

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Henry Nozko's Hartford, Conn., firm turned the liability crisis into an opportunity by entering a joint venture to form a successful insurance company. (Page 69)



PHOTO: OOR FORD

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General Motors and the United Auto Workers run joint seminars to educate workers in the realities of world competition.

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Your lease locks you into obligations. Familiarity with specific provisions can guarantee flexibility when you need it.

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Planning for success; dealing with difficult employees; unusual hiring techniques; how executives see women in management.

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An old product may take on new life and have a better chance in a crowded marketplace than a new brand.

### 69 Getting Past The Liability Crisis

Businesses are finding ways to cope with the crunch in finding liability insurance. For some, that means doing it themselves.

### 77 Setting A New Course

When Bob and Ruth Kehl, the National Small Business Persons of the Year, bought an old boat, their business grew, and they put tourism in northeast Iowa on a new course.

## PEOPLE/PERSONAL

Doug and Joan Carter own VSP Airport Parking, a lot near the Burbank, Calif., airport where cars are pampered and their owners showered with services. (Page 57)



PHOTO: MR. WHEELER-BLACK STAR

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If a property loses value permanently because of a casualty, you may have a deduction; a hidden barb in mortgage refinancings.

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A trek on the wild side—in the form of an adventure vacation—can be good medicine for harried nerves.

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Lower interest rates should mean higher prices for existing bonds. But call-ins can introduce a sour note.

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# Assuring The Future

By K.C. Mosier II

**A**gain and again I have read about the demise of American manufacturing. Yet it still has plenty of life in it: The manufacturing sector employs almost 22 million Americans and comprises over 20 percent of our gross national product. I have every reason to wish it good health. My well-being as a manufacturer of custom components for the capital goods industries depends on its survival.

My company, which has 110 employees, makes pneumatic cylinders and valves. Our customers range from the largest corporations, such as International Business Machines and General Electric, to the smallest job shops and custom machinery builders. In spite of heavy competition from more than 40 companies, including strong competitors in Germany and Japan, we are highly profitable, and our market share is increasing.

Few of my customers make effective use of an essential resource—their employees. But a sound labor management program can have a dramatic effect on a company's productivity and profitability.

One such program certainly has done so at my company. Here are its key points:

**1.** Treat employees as individuals within the framework of the organization. Use common sense and have empathy.

One of our employees asked that his anniversary date be changed so he could get his vacation paycheck early to pay overdue bills. Rules were rewritten to help him and others.

**2.** Never defend the company image when management is wrong; that undermines mutual trust.

At an employee meeting, a factory hand asked if he could wear shorts at work. Our plant manager said no. As voice levels rose, I realized this unimportant matter was becoming a real issue. I stepped in and announced that employees could wear shorts, unless it was determined on an individual basis to be hazardous.

The manager told me he had vetoed

wearing shorts because "I just don't think it looks right." Managers should not attach their personal value systems to their labor force.

**3.** Top managers should spend time working in each factory department, so that employees know they take personal interest in what is happening on the shop floor.

Our large-cylinder assembly depart-

*"A sound labor management program can have a dramatic effect on a company's productivity and profitability."*



ment's production was way below both projection and demand. Supervisors blamed workers' attitudes. I decided to spend a week in the department and see from the inside what was happening.

In two hours, I knew the problem. The department was woefully short of assembly bench space and tools. Things soon changed for the better.

**4.** Give employees as much information as possible about the company's financial welfare—including an annual review of the income statement, highlighting key statistics. Such openness by the company will build a "we're in this together" spirit.

**5.** Create a cash incentive system,

based on overall labor costs, for both salaried and hourly employees.

We started an efficiency bonus program in 1979 and have paid out \$202,548. Size of individual bonuses depends on seniority, job classification and attendance—both for regular working hours and scheduled overtime.

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**6.** Establish minimum work qualifications to be met by all new employees.

We test manual dexterity by requiring applicants to loosen, disassemble and reassemble a variety of nuts and bolts in a certain period. We also use a 50-question intelligence test to determine ability to take instruction.

**7.** Establish a clear-cut rulebook for all employees. Make sure each has a copy. People want to know they will be treated equally, even though each considers himself or herself a special case.

We require that employees, including managers, work the day before and the day after any scheduled holiday period that falls between regular work days. Several middle managers had to be called on a Monday following the long Thanksgiving weekend (we do give Friday off) and informed they would forfeit holiday pay if they did not come to work.

**8.** See that the work environment is clean and well-lit, with good air circulation. Employees will reason that if management doesn't care enough to keep the place clean, employees shouldn't care about what they produce.

**9.** Establish a fund to make emergency loans that employees can repay through payroll deductions. Interest should be modest. Employees troubled by finances will not be at their best.

**10.** Promote from within, so that skilled workers—you may want to develop a training program—will come from the ranks of entry-level employees. This will show employees there is a future for them if they work for it.

And that is what a labor management program is all about.

There may be no future for manufacturers that don't work for it by doing a better job with their employees. ■

Guest columnist K.C. Mosier II is chairman of Mosier Industries, Inc., Brookville, Ohio.



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## COMMENTARY

# Letters

## The Search For Capital

"Finding Funding" [May] correctly points to the dismal statistics confronting the individual or company seeking capital. No part of the process is simple. Our experience shows, however, that most fail in their attempt to find funding not because the idea or product is bad, but because of improper planning.

As bad as the statistics are, I believe they come close to representing the percentage of excellent plans among the bad ones.

*William Matthies  
General Partner  
Business Point Management  
Brea, Calif.*

The May issue is the first time I have seen *Nation's Business*, and I found

your magazine very informative. I am an operations and systems management major at Indiana University in Bloomington. I am also researching venture capital for a new business idea. Your article, "Finding Funding," was an excellent reference.

Your magazine design covers nearly every current topic—from management to health to product liability. I read the May issue cover to cover.

*Eric V. Wegner  
Bloomington, Ind.*

## The Hole In Tax Reform

It appears that tax reform legislation, in some form, will soon be enacted [Editorials, July]. But the proposed legislation does not address the most obvious inequity in the tax system: Benefits are part of total compensation but are for

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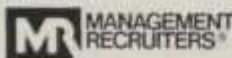
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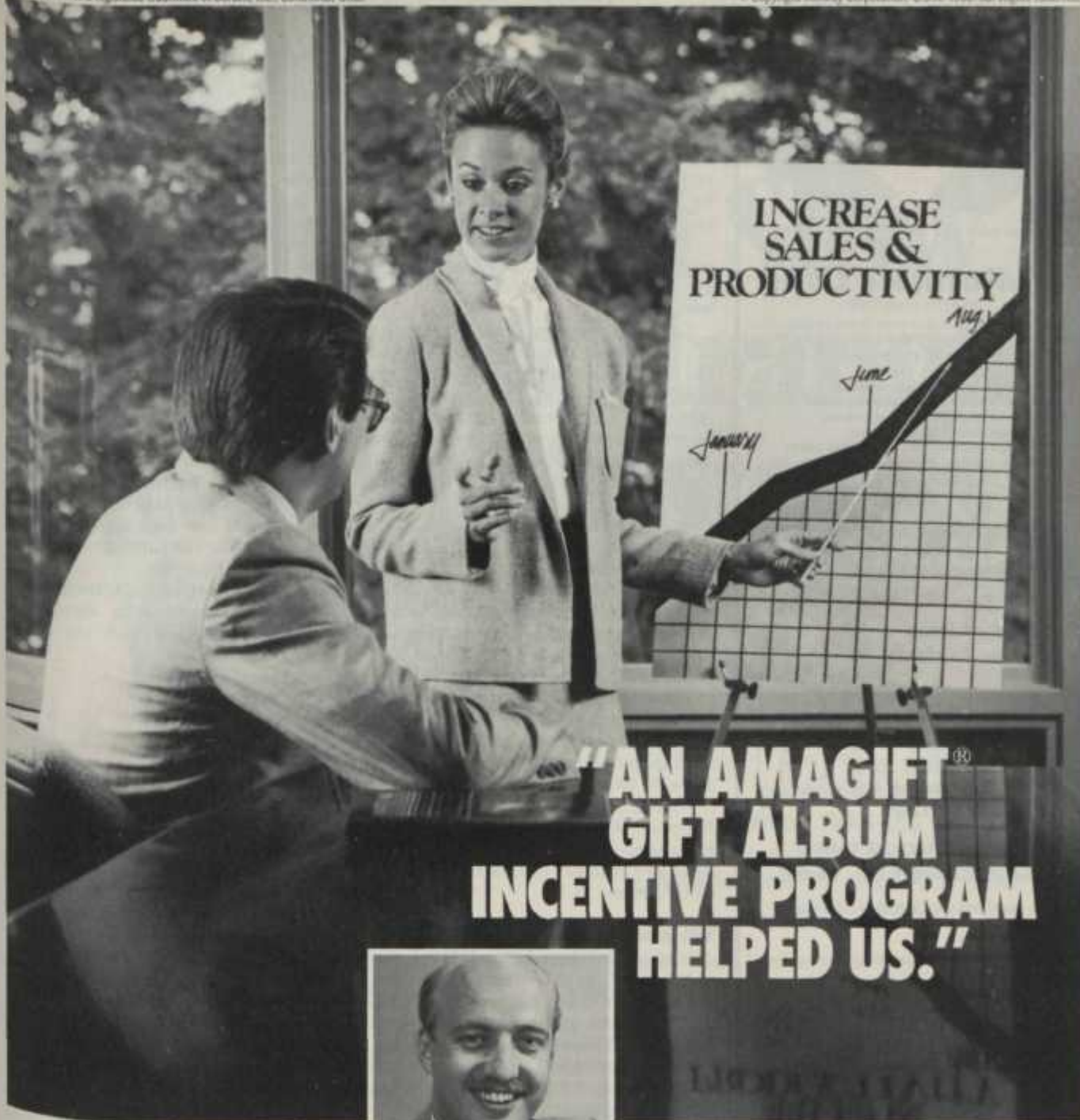
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— Duncan Wright,  
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Borden, Inc. — Home  
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## COMMENTARY

## Letters



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the most part tax-free. What other element of compensation is tax-deductible for the employer but not taxable for the employee?

This is not a question of high incomes versus low incomes. Tax-free benefits are received by people at all income levels.

Taxing benefits was considered when tax reform was originally proposed, but the idea was quickly dropped in response to pressure from unions and other special interests. Whatever the reasons given for not correcting this inequity, the result will be to continue a system that is fundamentally unfair.

Frank McBride  
Fort Lauderdale, Fla.

### Washington Waste

Re: "Deficit Cuts Come Home To Roost" [Washington Roundup, April]. My heart goes out to the senators and congressmen who are faced with having to cut their expenditures.

Sen. Daniel Moynihan (D-N.Y.) will find it difficult not to be able to send me multiple issues of his newsletter. I used to get about five copies. Now it is down to two, plus the one I receive at my home. Tough!

Harold J. Kammerer

President

Broome Chamber of Commerce  
Binghamton, N.Y.

### Self-inflicted Wounds

According to Where I Stand [May], proponents of Senate legislation that would make union violence and extortion a federal crime argue that such legislation is necessary because "federal law enforcement forces are much better equipped and more willing than their local counterparts to protect company property and people from angry strikers and pickets."

I maintain that managements are largely responsible for the pickle they find themselves in. Too many times we see union strikers discharged by their managers, only to be forgiven and taken back as employees as a condition of settlement. We are told this is done so that hard feelings would not continue after the strike.

Send letters to Editor, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

If management would quit caving in, maybe local authorities would take companies seriously and carry out prosecutions, and maybe then unions and strikers would get the message. Why should local authorities allow themselves to become the scapegoats for weak managements?

Roger Tomporowski  
Arlington Heights, Ill.

### Couch Correction

I was disappointed by "Businesses On The Couch" [May].

To set the record straight, Saul Pavlin and I were partners for six years before we split up last September. We have formed our own companies and continue to do the same kind of work described in the article.

I was responsible for attracting the Rosenbaum agency as a client; Saul Pavlin was not, although the article states otherwise.

Gary Lungen  
Lungen Associates  
Albertson, N.Y.

### Boards At Bay

Re: "Liability In The Boardroom" [May].

I take issue with the statement that companies "are getting rid of their outside directors, leaving them with boards composed of only 'inside' directors—the company's own executives, who are covered by regular company insurance."

In my 18 years of experience in providing commercial insurance coverages, including directors' and officers' liability coverage when available, I have never seen basic general liability coverage that specifically provides directors' and officers' liability insurance for inside directors. Either author Tony Mauro was misinformed or there is a new development in the area of directors' and officers' liability insurance of which I am not aware.

Robert P. Hollander  
Dade Underwriters  
Insurance Agency  
Miami

Editor's note: Mauro did not intend to imply that there is special liability insurance written specifically for board members who are also employees of a company. These directors, because they are employees, are automatically covered by the variety of regular insurance policies that a company would buy to cover its management staff.



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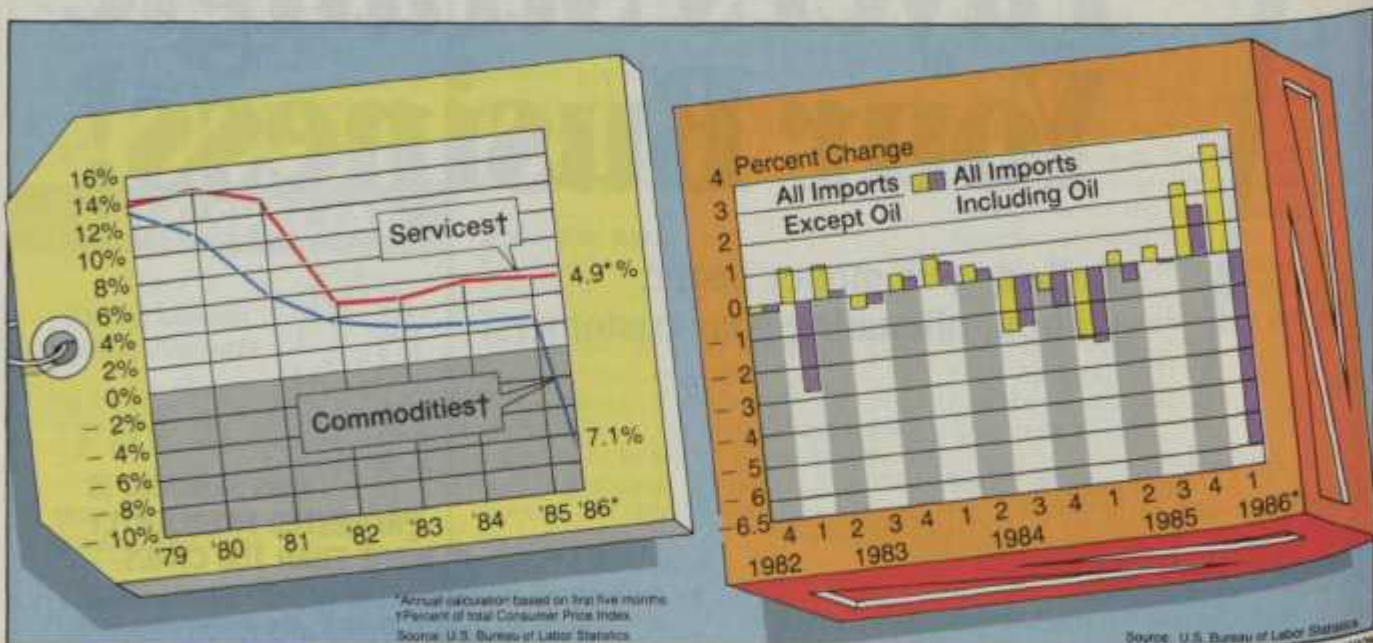
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# Business Outlook

## Inflation's Downs And Ups



After five years of diminishing inflation, climaxed last spring by an actual drop in consumer prices, the cost of living is headed upward again. But probably not by much for the foreseeable future.

The rise will be almost imperceptible this year and 3 to 4 percent in 1987, according to most analysts. Edward Yardeni, chief economist with Prudential-Bache Securities, Inc., in New York, says the economy is headed for a period of "lowflation"—low inflation.

Disinflation, verbal shorthand for declining inflation rates, took hold early in the decade. The annual consumer price index rise, based on December to December figures, skidded from 12.4 percent in 1980 to 3.8 percent in 1985. Then the spectacular plunge in crude oil prices during the first quarter of this year put inflation in reverse gear. The CPI rolled backward: deflation.

But deflation ended in May, reflecting a rebound in crude oil prices from a low around \$10 a barrel to roughly \$15. The CPI advanced for the first time in four months—0.2 percent—and appears to be headed for a 1986 rate of just over

2 percent. Most experts expect that the price of crude will stabilize in the mid-teens, meaning that energy, though it will not contribute to increased inflation, will not contribute to decreasing inflation, either.

"The drop in the inflation rate is almost certainly behind us," says Robert Dederick, chief economist of the Northern Trust Company in Chicago. "The question is, where do we go from here?" Most economists expect a gentle acceleration in inflation spurred by rising import prices and the relatively rapid rate of increase in service costs.

Excluding oil, import prices have risen sharply since late last year, paced by a 30 percent decline in value of the dollar relative to other major currencies. As the dollar's value goes down, we pay more for Japanese cars, French wine and Italian designer clothes. Foreign producers will reduce their profit margins rather than raise prices to absorb some of the cost of the declining dollar, but not all. Import costs during the first quarter were up 6 percent from last year at the same time (see chart).

Some analysts foresee a continued

weakening of the dollar. "We see the dollar falling at least through the beginning of 1988," says William Gerlach, an economist with Wharton Econometric Forecasting Associates in Philadelphia. "And we expect a 7 or 8 percent rise in import prices." As imports increase in cost, prices of some domestic goods that compete with them are likely to follow, since American manufacturers will have less incentive to restrain price increases.

The service sector is the economy's other major inflationary hot spot. During the first five months of the year, the services component of the CPI rose at an annual rate of 4.9 percent, compared with an energy-related free-fall in commodities prices (see chart). If energy prices stabilize as expected, the services sector will exert more influence on the inflation rate.

The major force acting to hold the lid on inflation will be the slow pace of labor cost increases. Analysts say that the unemployment rate will have to fall significantly below the current level of about 7 percent to exert upward pressure on wage rates.



*The cost of living is headed up again; tax reform will hit apartment construction; manufacturers target quality to regain edge; farmers won't benefit from Chernobyl.*

## Bad Development For Apartments

Housing construction has been a bright spot in the economy this year, with lower interest rates fueling a building boom. But the boom may go bust for the industry's sizable rental apartment segment, as builders adjust to the impact of tax code revisions and high vacancy rates.

The National Association of Home Builders predicts that apartment construction will hit a record 600,000 units this year. But it says that if tax revisions are passed as drafted, apartment construction would drop to 250,000 units in 1987.

Builders say that Senate proposals to lengthen depreciation schedules and to curtail tax write-offs for losses on real estate investments would drive investors from apartment-construction ventures. "A fair amount of apartment building is tax-shelter oriented, and that will stop," says Richard Kateley, executive vice president of the Real Estate Research Corporation in Chicago.

A substantial slowdown in apartment building, 30 percent of all new housing starts in 1985, would idle thousands of construction workers and produce a ripple effect in related industries such as furnishings and appliances.

Anticipation of tax law changes is enough to scare many investors away from apartment construction deals. New starts in May nose-dived 22 percent from the April seasonally adjusted level of 694,000 units. "This is the beginning of the bad news from the tax law changes," says Ken Rosen, manager of real estate research at the Wall Street investment firm of Salomon Brothers.

High vacancy rates in sun belt areas also contributed to the decline, says Kateley. Texas is particularly hard hit. One in four apartments stands empty in San Antonio, while Dallas and Houston have 15 to 18 percent vacancy rates.

"A large part of the impact of the [Senate] tax bill is psychological," adds Kateley. "The dampening effect will be short-lived in those areas where there is continuing demand for new apartment

*Builders are worried that the Senate version of proposed tax law changes will dampen the recent boom in rental apartment construction.*



PHOTO: T. MICHAEL KEZA

construction. Developers are going to find a way to go ahead with new projects."

That may be the case for the upscale market. But Kateley maintains that removing tax subsidies will seriously hamper construction of apartments for low- and moderate-income renters. Developers have counted on tax subsidies to make such projects profitable.

## Down On The Farm

This has been a summer of disappointment for U.S. farmers. Drought stunted grain harvests and ruined backyard gardens across the Southeast. Still, Agriculture Department analysts do not expect the dry weather to significantly affect consumer prices at the checkout counter. Most commercial-scale vegetable growers irrigate their fields. And meager grain harvests in the Southeast, not a major grain producing area,

## Back To Basics In Manufacturing

The panic is over. American manufacturers are adjusting to international competition. So says a new survey of the nation's top manufacturing concerns conducted by the Boston University Manufacturing Roundtable.

"International competition has shaken up manufacturing over the past two or three years," says Jeffrey G. Miller, co-author of the fifth annual North American Manufacturing Futures Survey. Previous surveys showed "there was a frantic grasping for solutions." Most notably, plant managers invested heavily in automation to boost production and cut unit costs.

High tech automation continues at a brisk pace. "But the most recent survey shows that things have calmed down," adds Miller. Managers have realized that the first order of business is a renewed commitment to quality.

Public perception of quality is a powerful marketing tool. Twenty years ago, Made in Japan meant "junk" to most Americans, Miller notes, but the Japanese slowly reversed that image by producing high-quality cars, cameras and electronic products.

Now many American manufacturers suffer from a similar low regard in the eyes of consumers at home and abroad, says Miller. And, he cautions, "It will take a long time for them to recover."

won't put a dent in the mountain of surplus grain.

Midwestern farmers had hoped to ship some of the surplus to the Soviet Union following the Chernobyl nuclear plant accident in April. Commodity futures markets went into a frenzy of speculation that much of the Soviet Union's unharvested grain crop had been contaminated with radiation. That turned out not to be the case.



# Washington Roundup

## Business' Battle Over Parental Leave

*A bill before Congress would require most companies to provide a new employee benefit—unpaid but job-protected parental leave.*



PHOTO: GERALD FRITZ—UNIPHOTO

Business remains a decided underdog, employer lobbyists concede, in the fight against enactment this fall of the Parental and Medical Leave Act.

The measure, which would apply to public- and private-sector employers of five or more workers, would mandate a new benefit—up to 18 weeks of unpaid but job-protected leave every two years for care of newborn, newly adopted or seriously ill children.

It also would entitle employees to as much as 26 weeks a year of unpaid disability leave. Like workers who take parental leave, those who take disability leave would be guaranteed their own or equivalent jobs upon return to work.

Supporters, including organized labor and many women's groups, argue that the United States is the only industrialized nation without an official parental leave policy.

They also point out that in most U.S. two-parent families, both parents now hold jobs. "Too many workers are forced to make an impossible choice between the need to care for their family and the need to provide financial sup-

port for that family," says Rep. William L. Clay (D-Mo.).

This argument has great election-year appeal, business lobbyists admit. But a coalition of nearly 50 business groups and individual companies counters with this statement: "Although parental and disability leaves are excellent employee benefits, Congress should not dictate benefits. Doing so is contrary to the voluntary, flexible and comprehensive benefits system that the private sector has developed."

Business also is telling House members, who could vote on the bill—H.R. 4300—soon, that it could hurt the very people it is designed to help.

Virginia B. Lamp, a U.S. Chamber of Commerce labor attorney, tells of getting a call from the owner of a small business in Texas.

"If this bill is passed," Lamp says, "he won't hire any more women of childbearing age, and he won't hire anyone over age 50—because they're more likely to become disabled." Although such action could be illegal, "you can't always prove discrimination, and it's expensive to sue," Lamp says.

## Immigration: No News Is Good News

Congressional backers of an overhaul of U.S. immigration law are disturbed by lack of progress in the House. But many business people, who fear increased regulation, are not disturbed in the least, say business lobbyists.

A main impediment in the House is a provision that would allow alien "guestworkers" into the United States to harvest perishable produce. Sen. Alan K. Simpson (R-Wyo.), chief Senate proponent of immigration reform, strongly opposes such temporary immigration. So does organized labor.

Another controversial provision would grant citizenship to many aliens residing illegally in the United States. Most congressmen support this concept, but few agree exactly on how to implement it.

The business community generally has not involved itself in these controversies. Its principal concerns with the Immigration Control and Legalization Amendments measure involve regulation.

A version of this bill now stalled in the House Judiciary Committee—and opposed strongly by business groups—would require even the smallest of employers to verify job applicants' citizenship and keep supporting records. Employers could be fined for violating this requirement even if they never hired an illegal alien.

The House bill also would create a new civil rights agency that would monitor hiring and firing practices.

Employers backed an immigration bill that the Senate passed 69-30 last September.

This measure would make record-keeping optional, and it would not set up a new agency. Under the bill, optional records would be an affirmative defense to charges of knowingly hiring illegal aliens.

If the House acts this year, conferees could put mandatory recordkeeping or the new civil rights provision in the final bill.

That is why opponents are hoping for no action at all.



# A Health Cost Prescription That's Easy For Businesses To Swallow.

As a business owner or manager, you've probably swallowed hard over the soaring cost of employee health care. There has been little you could do to control it, short of cutting benefits.

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the fight to take Washington's airports private;  
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## A Precedent For Privatization

Here's a quiz:

The Metropolitan Washington Airports Transfer Act is which of the following?

a) Legislation to transfer control and, ultimately, ownership of National and Dulles International airports from the federal government to an independent local authority.

b) The first congressional test of President Reagan's plan to privatize many federal assets.

c) The focus of a power struggle between representatives of rural and urban districts.

d) An effort by Democrats to thwart re-election of a Republican representative from Northern Virginia.

e) All of the above.

If you did not choose answer "e," you fail this test, just as the transfer bill could fail its House test this year.

The bill, sponsored by Rep. Frank R. Wolf (R-Va.), would lease federally owned National and Dulles, both located in the capital's Virginia suburbs, to a regional commission for \$44 million over 35 years. The commission would get title to the two airports when the lease ends.

Passed 62-28 by the Senate in April, the measure would get the federal government out of the airport business, setting a precedent for President Reagan's other more sweeping privatization proposals, such as sale of Conrail, the federally run railroad operation.

It would preclude the federal government from having to finance from the Treasury the estimated \$700 million in repairs and improvements that the two airports now require. The regional authority would sell bonds to finance needed work.

But for all its seeming virtues, the legislation may not pass the House this year.

Among reasons is an amendment to the bill passed by the Senate that would permit nonstop flights from National of 1,250 miles, up from the current 1,000. Extension of the "perimeter rule," supported strongly by House Majority

*Virginia Gov. Gerald L. Baliles advocates privatizing Washington's Dulles and National airports. Joining him here is Transportation Secretary Elizabeth H. Dole.*



PHOTO: DENNIS BRACE—BLACK STAR

Leader James C. Wright (D-Tex.), would result in direct flights from National to, among other places, Houston and Dallas-Fort Worth airports.

Opponents, led by Rep. Gene Snyder (R-Ky.), believe an expanded perimeter would detract from direct service to their rural regions; they fear more of National's limited flight capacity would be earmarked for major cities farther from Washington.

Also, House Democrats are loath to provide an election-year victory to Wolf, who is facing a stern challenge from a well-known local politician.

A recent rally in support of the bill, held on the Capitol steps, drew hundreds of backers. "Lobbyist" speakers included Transportation Secretary Elizabeth H. Dole and Virginia Democratic Gov. Gerald L. Baliles.

"National Airport has become a national disgrace," says Baliles, in support of the proposal. He adds, in a reference to National's legendary ground traffic congestion: "They used to sell you life insurance before you got on the plane; now they sell it to you when you get out of your car."

## Updates

### CPA Or CIA?

Business is keeping a close eye on the Financial Fraud Detection and Disclosure Act, a bill sponsored by Rep. Ron Wyden (D-Ore.) that would require firms' auditors to report to appropriate authorities any knowledge or suspicions of fraud or other unlawful activities. "This legislation is designed to provide assurances to Congress that illegal or irregular activities will be discovered and reported by those in the best position to perform this vital function," says Wyden.

But the measure, H.R. 4886, could change dramatically the nature of top business managers' relationship with their certified public accountants.

For example, the bill, now before the House Energy and Commerce Committee, could force a CPA riding in a company car to report speeding.

### Lie Detector Hassle

The Senate Labor and Human Resources Committee has begun considering a House-passed bill that would ban most polygraph testing by businesses. Supporters such as Rep. Matthew G. Martinez (D-Calif.) object to polygraphs "playing judge, jury and God in determining a worker's fate."

This measure (S. 1815) is strongly opposed by firms as diverse as hotel operators and pharmaceutical manufacturers, which routinely use polygraphs to identify security risks among job applicants. A 1983 study by the government's Office of Technology Assessment found that polygraphs are 64 to 98 percent accurate.

### A Government Aid

A new Commerce Department publication lists more than 180 federal and 440 state business assistance programs. A copy of the Directory of Federal & State Business Assistance, a 176-page publication, costs \$19, plus \$3 handling, from the National Technical Information Service, U.S. Department of Commerce, Springfield, Va. 22161.



# Small Business Report

*The regulatory process handles bank failures smoothly; the administration shifts tactics on the SBA; biotech companies have a long wait for patents.*

## No Alarm Over Bank Failures

Regulators do not view with alarm the prospect of a record 160 bank failures this year—the fifth in a row that the number has risen.

"I think the country is handling the bank failures very well," says Robert Richard, vice president of the Conference of State Bank Supervisors in Washington. "This isn't causing waves of fear in the minds of the public. It's being handled very smoothly by a regulatory process that is working well."

The Federal Deposit Insurance Corporation steps in whenever a bank becomes insolvent. Although the agency has been unusually busy this year, "we're not overly alarmed at the failure rate," says Steve Katsanos, an FDIC spokesman.

Chairman L. William Seidman says the agency raised its estimate of 1986 failures from 120 to between 140 and 160 because the number of banks on the agency's problem list is climbing. The figure grew from 1,140 at the beginning of the year to more than 1,300 in early June. During that period, 56 of the nation's 14,400 commercial banks actually failed.

Small banks tied closely to local farming or oil businesses are the most troubled. Assets of the average insolvent bank this year total roughly \$43 million, according to FDIC figures.

Though bank failures will cost the FDIC an estimated \$1 billion this year, the agency's insurance fund still will finish 1986 with a surplus of equal size, says Seidman.

One reason regulators downplay the significance of the failures is that they are linked to regional economic factors rather than broad national trends. Twenty-one of this year's first 56 failures were in farm states, and 16 were in oil-producing Louisiana, Texas and Oklahoma. There were 18 in other states and one in Puerto Rico (see chart).

Farmers are suffering from years of price-depressing surpluses and declining land values, while oil producers are reeling from a sudden price collapse

### 1986 Bank Failures\*



early this year. Banks have suffered, too, because both of these groups have had difficulty repaying loans.

The plunge in oil prices also has had adverse impacts on the overbuilt commercial real estate market in cities like Houston and Dallas, further straining bank loan portfolios.

Double-digit inflation and economic recession in the early 1980s kicked off

banking's current round of problems. Between 1979 and 1981, fewer than 10 banks failed each year. In 1982, the figure was 42, and by last year it had risen to 120, a record. The previous record of 84 was set in 1937. The current wave of failures is expected to crest this year. "Right now we think that failures next year may drop to a level of 100 or 120," says Katsanos.

## SBA Cuts Pushed To The Back Burner

The Reagan administration at least temporarily has given up trying to win converts on Capitol Hill for its proposal to eliminate the Small Business Administration as a separate agency. And it apparently has failed in renewed attempts to cut the agency's already severely pared budget.

Says Jack Dolan, an aide to the Senate Small Business Committee: "The SBA is here to stay, something every-

one seems to know except the White House."

The administration tried to kill the agency last year but settled for a compromise engineered by Senate Republicans to maintain an independent SBA while shrinking its budget. To that end, a bill President Reagan signed in April continued the agency through fiscal year 1988 but reduced its spending \$1.2 billion during the same period. Dolan



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## Small Business Report

## THE NATION'S BUSINESS

## SBA Cuts Pushed To The Back Burner

says the agency's 1988 budget is projected at roughly \$500 million, compared to \$1.2 billion in 1985.

Even before the bill was signed, however, the administration launched a new assault on the agency. The fiscal 1987 Reagan budget called for making the SBA part of the Commerce Department; eliminating the agency's finance, investment and business development programs; and selling off its loan portfolio. These changes would save \$1.4 billion in fiscal 1987 and \$5.2 billion over three years, according to the administration.

Many lawmakers maintain that last year's compromise should have put an end to administration efforts for further SBA changes. There is bipartisan opposition to the latest proposals among members of both the House and Senate small business committees.

As a result, the administration now has conceded defeat on moving the agency to the Commerce Department.

But, attacking on another front, it has intensified efforts to cut the agency's 1987 budget.

"Most of the savings proposed in the President's budget could be achieved through budget reductions while retaining an independent SBA," says Acting Director Charles F. Heatherly. "But that does not mean that we have totally abandoned other parts of the administration's proposal. It's just a recognition of priorities."

The administration contends that most SBA functions should be turned over to private enterprise. Supporters of the agency maintain that the nation's 14 million small business owners need an independent voice inside the federal government.

## A Biotech Patent Backlog

Biotechnology, an infant industry offering more promise than products at the moment, is already the hottest area of activity at the U.S. Patent Office—a sure sign of things to come.

Biotech patent applications flow in at a rate sometimes exceeding 200 a month, says Robert Warden, a Patent Office supervisor. Just two years ago, a dozen examiners processed a trickle of biotech patents. Since then, the number of examiners has tripled, but the office still cannot keep up.

It currently takes an average of 16 months for examiners even to begin processing a patent application for a genetically engineered organism, says Charles VanHorn, who oversees all biotech applications. The backlog is greater in biotech than in any other area, including electronics.

Most of the patent applications come from small companies, says Richard D. Godown, executive director of the Industrial Biotechnology Association in Rockville, Md. He estimates that the nation currently has about 250 biotech companies.

"Waiting for a patent can be a serious problem for a small company because of the economics involved," Godown explains. Start-up biotech companies with limited financial resources need to take the shortest route between discovery and marketing.

*Robert Warden, a Patent Office supervising examiner, stands amid rows of backlogged biotech patent applications.*



PHOTO: T. MICHAEL KEZA

A patent, however, is just one of many hurdles a biotech company must clear. Even larger hurdles may lie ahead for products that require the approval of federal regulators. The Food and Drug Administration, for instance, requires rigorous testing of new medical products. And the Environmental Protection Agency must certify the safety of all genetically altered microorganisms for farm use.



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# Where Are The Teenagers?

By Harry Bacas

**W**e have just about constant turnover," says Perry Denoyer, manager of a service station in an affluent neighborhood of Washington. "Hardly anyone wants to work a job like this when they don't have to. And none of those who start want to stay on. We have one guy on work release from the jail's halfway house. He works here during the day and goes back to the institution at night. As a last resort, we could hire more of these people from rehabilitation programs."

Amy Townsend, a human resources manager for Marriott Corporation, says, "It's just getting harder and harder to find entry-level employees. We have come to recognize that we need to educate high school students to the career possibilities in the hospitality industry. Until recently we didn't have to do that. Applicants just came in."

From their sharply differing perspectives as employers, Denoyer and Townsend are commenting on the impact of a problem confronting more and more companies of all sizes today—the fast-increasing shortage of entry-level workers, both in absolute numbers and in the number of those with the skills and attitudes required to enter the workplace.

The problem is particularly acute now in the retail and service businesses, such as gasoline stations, fast food restaurants, department stores, convenience stores and sectors of the lodging and recreation industries.

But employers in many other fields will be feeling the impact not very far down the road. The Bureau of Labor Statistics says 9 million jobs will be created in the retail and service industries over the next 10 years—at the same time the number of workers to fill them is contracting rapidly.

In addition, employers who look to graduates of colleges and various types of training programs will come up against the problem as this shrinking population category group moves through the economy behind the baby-

*Elaine Blohm, 19, from Tulsa, Okla., works four days a week in the bakery at Walt Disney World in Florida. A college junior, she gets academic*

*credit for attending a communications class on the fifth day. Disney uses the courses to attract young workers.*



PHOTO: NEILAN SMITH



*As the baby-bust generation moves into the job market, they are finding that there is lots of room at the bottom. For business, creative approaches to filling entry-level jobs are becoming essential to survival.*

boom generation now in the 25-40 age bracket.

The most obvious signals of the declining ranks of entry-level workers today are the ubiquitous help wanted signs that have become a permanent fixture in many stores. Some are almost plaintive, appealing for full-time, part-time or temporary workers, offering a choice of shifts and jobs, promising training and the prospect of promotion along with good pay and benefits.

Those signs are a colorful marketplace manifestation of demographic trends that began with relatively little attention in the mid-1960s. The baby boom was still the big news on the population front. Births had gone from 3.4 million in 1946 to 4.2 million in 1960. But those numbers had begun to turn around. In 1965, the number of newborns slipped below 4 million for the first time in 13 years and kept dropping.

**B**irths averaged 3.6 million a year between 1967 and 1970, well below the peak, and the children born in those years are the 16-to-19-year-olds of today. In 1974 there were 3.1 million births, a number that sets the stage for an even tighter market for entry-level workers in 1990 than there is now.

There were nearly 9.7 million youths aged 16 to 19 in the work force in 1971, but their ranks were just over 7 million last year. And that 37 percent drop has occurred at a time of major economic expansion and job creation.

As the number of 16-to-19-year-olds has dwindled, their presence in the work force has dropped from 9.4 percent to 6.8 percent in the last 10 years.

Taking a broader perspective, young people aged 16 to 24, who made up nearly a quarter of the total work force only six years ago, have declined to 21 percent today and will drop to only 16 percent by 1995.

The baby-bust generation will move through the economy as a bloc, just as the baby-boom generation did. Census

*Jon Moss (top), a college student from Lincoln, Nebr., is another of Disney World's young recruits from across the country. He works in a gift shop.*



PHOTO: BRIAN SMITH

*Ken Bergmann (bottom), uses company delivery trucks to bring inner city workers to his suburban Washington dry cleaning plant.*



PHOTO: KEN TOUCHTON



## COVER STORY

## Where Are The Teenagers?

Bureau figures show that the number of Americans aged 20 to 24 will shrink from last year's 21.3 million to 18.5 million by 1990 and to 17.1 million by 1995.

Population figures alone do not adequately convey the problem. An increasing number of teenagers, especially those from disadvantaged groups, are dropping out of school. They lack the reading and other basic abilities needed to function in the workplace. Many are mired in social problems that point to a lifetime of welfare dependency.

**T**he National Alliance of Business, which is committed to providing job training and opportunities to the disadvantaged, says the number of high school dropouts will increase beyond the current level of 1 million a year, further shrinking the 16-19 age bloc as a source of qualified entry-level workers. In a recent report, the alliance comes up with the ironic conclusion that, in an era of more job openings and fewer workers, youth unemployment is expected to increase.

Citing major changes evolving in the composition of the work force, the alliance says:

"Most striking [of the changes] will be the growth of less well-educated segments of the population that have typically been the least prepared for work. The number of minority youths will increase while the total number of youths of working age will decline. The number of high school dropouts will rise, as will the number of unwed mothers. At the same time, entry-level jobs will increasingly require basic analytical and interpersonal skills."

Edward D. Haddad, Sr., who runs a service station in Pittsburgh, brings some of those problems down to the contemporary working level: "I had a help wanted sign over my station for well over a month, and we had about 50 applicants for the job. But few had high school diplomas, and about five of them were actually illiterate. Illiteracy and just plain verbal inadequacy are big problems."

When it comes to young people, he says, "the qualified ones won't work service station jobs because they think it's demeaning or too low-paying, and the kids who have to work can't read or perform the interpersonal parts of the job adequately, so we can't hire them."

While acknowledging the increasing severity of the problem, affected employers are taking a wide range of steps to cope with it. One major effort



Yvette Polnick, 20, is a crew leader at a Wendy's in Houston. The chain offers employees steps on a career ladder to encourage them to stay.

is designed to give disadvantaged youths some of the fundamentals for employment and putting them in jobs where they can gain experience with the hope of advancement.

Business-backed operations to prepare disadvantaged youngsters for the workplace include programs like one in Atlanta called Exodus, a name derived from its Biblical context. Neil Shorthouse, executive director of Exodus, explains:

"These kids are imprisoned in social and educational bondage, and they're not going to get free unless we help them."

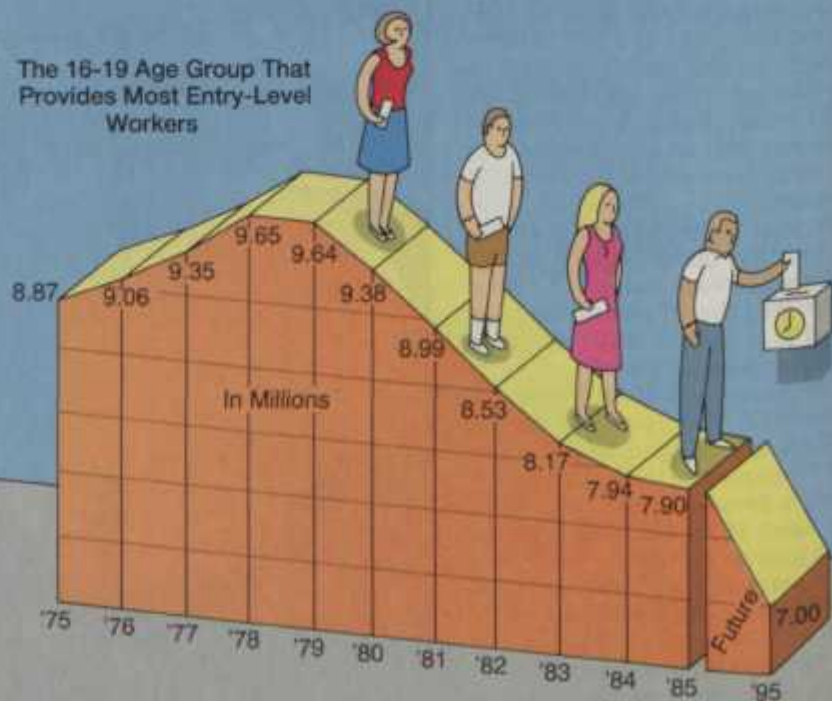
The program, operating in conjunction with the city's public school system, and being copied in other cities, runs several street academies or "schools of last resort" for youths who have been unable to finish high school.

Employers support such projects for their contribution to improving the prospects of the participants and as a potential source of employees. Last June in Atlanta, for example, the 64 young people graduating from Exodus also received a personal letter from J. Willard Marriott, Jr., chairman and president of the hotel and restaurant chain, and heard two Marriott representatives talk about careers in their field.

Other steps employers are taking to

## A Dwindling Force In The Work Force

The 16-19 Age Group That Provides Most Entry-Level Workers



Source: U.S. Bureau of Labor Statistics

CHART: DALE GILSON



overcome the shortage of younger workers include an increasing reliance on older people, including some who have already retired, and on the capabilities of the handicapped.

Safeway Stores have begun using "more and more retired and senior and handicapped people," reports Milt Kegley, Safeway's vice president for human resource development. "They are excellent employees, and there are heartwarming examples of what holding a job can mean to them."

"In our recruiting, we have expanded our horizons," Kegley says. "And we find that when you hire the elderly or the handicapped, you are likely to get people who are really dedicated. They may not run across the parking lot when bringing back a cart, but they are dedicated."

Other companies that recruit younger workers are also taking steps to overcome the shortages resulting from both demographic and social factors.

For example, Burger King has just begun to offer good employees tuition grants. Wendy's pays cash bonuses to employees who refer new workers. The Roy Rogers chain has created intermediate "career" positions to encourage workers to stay.

Some of the strategies are aimed at bringing job seekers and jobs together. While unemployment among inner city youths ranges as high as 40 percent, jobs in the suburbs are hard to fill because the rapid growth of service industries there has heated up the competition for local young workers.

During the peak sales season, Abraham & Straus transports busloads of young workers from its Brooklyn headquarters to its department stores in suburban counties.

Bergmann's Laundry and Dry Cleaning, which is based in a Virginia suburb of Washington but draws most of its labor force from the inner city, uses its own trucks to transport workers between their homes and their jobs.

"In the morning, they are picked up by trucks making their normal delivery runs, and at night they are dropped off the same way," says Ken Bergmann, executive vice president of the firm.

That pattern—jobs in one place and available workers in another—is increasing in large metropolitan areas. Public transit is often deficient. In many cities, morning rush hour means nearly as much commuter traffic going out as coming in. In some metropolitan



PHOTO: T. MICHAEL KEZZ

Andrea Rourke, 18, learned business skills through Junior Achievement in Charlotte, N.C.

areas, fast food chains have to pay entry workers at restaurants in affluent suburbs \$5.25 or \$5.75 an hour, rather than the \$3.35 minimum wage that is standard in the cities. A suburban Atlanta billboard advertised \$7 an hour for pizza parlor workers.

Another technique employers use to maintain employment goals is to reach out beyond their immediate area.

In Florida, the famed Disney World has expanded its recruiting to 60 colleges, some of them abroad, and provides formal management training to attract student workers. It can be a mutually beneficial arrangement. Jon Moss, a business administration major at the University of Nebraska who is working in a gift shop, says the job is helping to train him to work with people of all ages from all walks of life.

For some employers, however, the experts say the emphasis will be on changing the nature of the jobs, rather than changing the method of filling them.

Audrey Freedman, executive director of the human resource program for the Conference Board, a nonprofit business research group, expects to see changes as major as the development of supermarkets during World War II.

"Before the supermarket explosion," she says, "you handed the grocery man

## The Dilemmas Of The Youth Job Market

"There are two dilemmas" in the youth employment market, says Ronald C. Pilenzo, president of the American Society for Personnel Administration.

"On one hand there are the entry jobs at minimum wage that nobody seems to want, and on the other you have an over-educated work force that is looking for better jobs."

Pilenzo suggests several possible solutions. Employers can try to eliminate their entry-level jobs by installing automation or by redesigning the job.

In one job, for example, an employer can combine low-level duties, like telephone answering, with higher duties like word processing.

"You get the grunt work out of the way, or you enhance the job with other activities," Pilenzo says.

Another approach is to fill positions with contract labor.

Pilenzo notes that the business of supplying temporaries is growing rapidly, and more employers are including permanent part-time workers as alternatives to full-time help.

Employers also can participate in cooperative education programs with colleges or vocational schools, Pilenzo says. If they give students temporary jobs while they are in school, they will better their chances of hiring them after they graduate. Or employers can "grow their own" skilled workers through in-house training programs.

"The labor market has crazy patterns," Pilenzo says. "You don't even hear of these entry hiring problems in some industries, but they are becoming acute in others, especially certain service industries that pay low wages."

"Business just needs to bring its creativity to bear to develop alternatives."



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## COVER STORY

## Where Are The Teenagers?

Jose Gracia is a sales associate in the menswear department of the Abraham & Straus store in Manhasset, N.Y. Now 20, he was hired

permanently after taking part in the chain's program of busing inner city youths to suburban stores.

a list, he filled your order, and then he delivered it. But then the labor shortage hit, as people left for better-paying war jobs. Suddenly groceries turned into supermarkets with a much smaller labor content.

"I don't know how fast food places will change their operations. But at a minimum they will have to change their recruiting. If you want to reach older workers, it takes a different kind of communication.

"The hours will have to be different, because the stamina of older people is different. And the benefit mix will have to be different to suit different needs. Training will be different, too. Older people will probably need less training in how to deal with customers but more in how to handle new technology.

"These changes will occur fairly slowly, but businesses will come and go on the basis of how well they adapt to the resources available. Here the small business person has an advantage over the big corporation. Such people are more flexible; they can try things. A McDonald's doesn't dare try; it has to be absolutely sure before it makes a change."

Freedman thinks the greatest impact on small business will be in industries that rely heavily on teenagers, like car washes, gardening services, hair cutting and dry cleaning.

**T**he sharp cutback in the number of service stations operating in the United States—102,000 have been closed since 1983—and the emergence of self-service stations have diminished that industry's need for entry-level help, but Victor Rasheed, executive director of the Service Station Dealers of America, says that employment problems remain.

"Finding quality help at affordable rates, young people who would like eventually to be automotive technicians, is getting harder," he says, pointing out that the industry is employing more immigrants, particularly Asians.

Employers in states facing economic problems are not as affected by the shrinking pool of young workers, because high unemployment rates mean workers of all ages are seeking jobs.

For example, the Royal Orleans, a luxury hotel in the French Quarter of New Orleans, has no difficulty filling any jobs, including those paying the hotel's minimum wage of \$4.75 an hour. Henry Tebbe, the hotel's director of personnel, says Louisiana's 13 percent unemployment level, a result of the



sharp drop in oil prices, is responsible for that.

And in Lincoln, Nebr., Bryan Memorial Hospital has little trouble filling its \$4.25 an hour minimum wage positions because of a slump in the farm economy and Control Data Corporation's recent closing of a 700-employee facility.

"But we won't have that luxury long," says hospital human resources

director Jerry Sellentin. "Premium pay is imminent. As soon as the local economy picks up, it's going to be difficult to fill jobs." Already, his 1,300-person staff includes high school and university students who work part-time at clerical, housekeeping and food service jobs.

As the competition for qualified young workers intensifies, more employers are looking to alternative labor

## The Senior Citizen Solution

Although the aging of America is creating problems in the labor market, it also is pointing the way to solutions.

More companies are turning to the growing ranks of senior citizens to fill vacancies left by the shrinking number of young people.

Such workers usually bring greater knowledge, experience, willingness and reliability to the job. And two studies funded by the Travelers Corporation suggest that use of older workers can also be economical.

One study, conducted by the Institute of Gerontology at the University of Michigan, says a general impression that older workers cost more because of higher benefits use, especially for health care, is not borne out in practice.

The study says that while health insurance and pensions will probably cost more, "the experience, stability and

particular skills of older workers tend to balance the negative impact of higher costs." It adds that offering reduced benefits to part-time workers lowers costs further.

A second study, by the Andrus Gerontology Center at the University of Southern California, found that most companies with older workers prefer to give them temporary part-time employment. Second choice is permanent part-time employment.

Travelers itself has been "unretiring" some of its retired employees for more than five years. It offers them both temporary full-time work as replacements for employees on vacation or sick leave and regular part-time work sharing a job with other retirees. Since they are already drawing pensions, there are no additional pension costs.



pools to satisfy their needs. They are considering groups once thought to be "unemployable."

Rehabilitative training has taken on a new urgency. The Exodus program in Atlanta, for example, is designed to work with youngsters who are "at risk" of becoming disconnected from productive society, those who are failing in regular school and lack motivation because of missing family support or discipline.

Local business heavily supports the program. One of four Atlanta schools managed by Exodus professionals—with instruction by regular school system teachers—is in Rich's downtown department store. Store employees help public school teachers give instruction. They talk about their work, demonstrate store operations and give lessons in personal relations and grooming.

The Exodus program is being duplicated under the name "Cities in Schools" in more than a dozen other cities, including Houston, Miami, Pittsburgh and New York.

**S**ummer Jobs programs mounted in major cities in recent years are part of a continuing effort by business and government to provide initial work experiences for low-income youth. In New York City alone, with the Coopers & Lybrand accounting firm leading this year's campaign, employers came up with 35,000 temporary summer jobs, each for a minimum of 20 hours a week for seven weeks.

"We take a business approach to this," says Norberto J. Ellemberger, a Coopers & Lybrand partner who heads this year's campaign. "We want these kids to have useful jobs, whether it's clerical or a library assistant or a messenger. We know that if we don't help them to be productive citizens, it is going to cost us later."

Some economists find a bright spot in the picture. Fabian Linden, executive director of the Conference Board's consumer research center, says the youth shortage is a "happy problem."

For the baby-bust generation, he says, "it's going to be like the 1950s, when young people coming out of school had an easy time finding a job. That was a blessed generation; they found themselves in demand because of their relative scarcity, because so few people had had babies in the 1930s. Pay levels rose then because of the demand and will rise now."

"By contrast, the baby boom has been called the Trojan horse of popula-

tion change because it depressed wages wherever it went." The shortage of new workers, Linden says, "will give employers the incentive to improve their operations. Now they can mechanize and put in the new technology they were postponing because until now it wasn't worth it. Don't worry, business managers can cope. They will come up with the most efficient solution."

"One of the major ingredients of national economic growth is productivity, and you can get only a 1 percent increase in productivity from labor. But with mechanization, you can improve your productivity a lot more, and that will be a boon to the economy."

Increased productivity, more reliance on older or handicapped workers, improved transportation arrangements, and educational assistance and other incentives are all steps that employers are taking to overcome the growing shortage of entry-level workers.

But some experts question whether such actions can be more than stopgap solutions. Hiring older workers to do jobs that functionally illiterate school dropouts from the inner city cannot handle might take care of today's staffing needs, they say, but it does nothing toward solving the national problem of young people facing long-term unemployment in the midst of a booming economy.

Robert L. Martin, a human resources specialist at the U.S. Chamber of Commerce, says, "A growing percentage of these young people are not going to be equipped with the basic educational and interpersonal skills needed to make successful transitions to productive adult lives."

**T**he National Alliance of Business says that employers "must be more involved in our education system and training institutions and in the development of community and state strategies."

Without such involvement, says Alliance President William H. Kohlberg, "new technology, stiff international competition, changes in consumer taste, and demographic shifts will cause pervasive mismatches between workplace needs and work-force capabilities. The next 10 to 15 years threaten that growing cohorts of our working age youth and adults will lack the education and skills to obtain even their first entry-level job." **MB**

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# The Profit In Camps

By Cecelia Blalock

**W**hen Tom Armstrong retired from his job as coordinator of the math department in the Foxboro, Mass., school district, he and his wife planned to move to Florida and open a motel. But instead of living amid balmy breezes, sandy beaches and quiet retirees, the Armstrongs now find themselves spending eight weeks a year inhaling the bracing air in the Maine woods, surrounded by 130 high-spirited youngsters. The rest of the year is largely spent in their car recruiting candidates for Camp Waziyatah, which they bought two years ago.

"We looked at the camp just before we were about to move to Florida and fell in love with it," recalls Nancy Armstrong. "We decided running a camp was very much what we wanted to do and bought it that same weekend."

The Armstrongs are among a wide variety of people throughout the country who are trading on Americans' love of the outdoors and what has become a 125-year-old tradition—the summer camp.

Modern camps are vastly different from the typical Camp Itchenerscratch of 30 years ago. They may still offer boating, archery and ghost stories, but participants come away with more than poison ivy and memories of thrills and chills. They can slim down, shape up, learn to catch a pass like a football pro, dance like Baryshnikov or compute like a whiz. Even adults are turning to camps to develop a variety of skills or fulfill childhood fantasies.

Camping is big business. A study by the Organized Camping Resources Center at the University of Southern Maine found that the summer camping industry generated \$2.5 billion at more than 11,000 camps in 1982. By 1985, the estimated figure was at least \$2.8 billion.

Though most camps are affiliated with churches or organizations like the YMCA or Boy and Girl Scouts, others are owned and managed by individuals.

There are about 1,600 private residential camps and 4,000 day camps in the United States, estimates James LeMonn, the American Camping Association's director of media relations.

"One of the big areas of increase is in

*Today's campers look for more out of a summer than archery, canoeing and marshmallow toasts around a fire. Children who want to keep up*

*with latest technology or get an educational edge go to specialty camps like the National Computer Camp in Orange, Conn.*



PHOTO: NATIONAL COMPUTER CAMPS

day camps, which may have doubled in the past decade," LeMonn says.

Running a camp has evolved into a full-time occupation. As a part-time or summer job, camp management can take its toll.

For most of the year, Barbara Fisher is assistant headmaster of the Daycroft School in Greenwich, Conn., but during the summer she runs the Pinewoods Camp in Center Harbor, N.H., which she owns. "I feel like I'm running ragged all the time," she says. "It's much harder to recruit campers, and we rely more on word of mouth than on advertising or seeking out contacts. The camp isn't flourishing the way it should, and that's because it isn't a full-time job."

**C**amp operators can earn a comfortable, though not usually lavish, living. As with most businesses, however, reaching that comfort level takes time.

"We didn't make any money last year and just hope to hold our own this year," reports Tom Armstrong. "But after that we should do better."

Portanimitic, The Sailing Camp, moved from Cape Cod in Massachusetts to Union, Me., last year when Tom and Bonnie Lincoln decided to buy their own camp site after leasing for 10 years. Unlike the Armstrongs, who took up camp ownership after retiring, the Lincolns are a young couple who chose the occupation as their livelihood.

"We discussed it a long time," says Bonnie Lincoln. "We realized we probably will never make a great deal of money, and it's somewhat of a trade-off for a lifestyle we enjoy. We decided that as long as we can be comfortable and educate our children, it is O.K."

Today's camp owners must know a lot more than arts and crafts and how to start a campfire. Beyond dealing with their charges, they must be skilled in marketing, administration, business management and recruitment. The Armstrongs, for instance, put more than 50,000 miles on their car last year recruiting campers and counselors.

"Labor is a big problem," reports Lincoln. "The college kids who traditionally are the counselors need more money these days because of the high

Cecelia Blalock is a Washington area free-lance writer.



*Summer camps are not what they used to be. Owners who stay tuned to latest trends find new ways to attract happy campers.*

*Falling in love with Camp Waziyatah in South Waterford, Me., Nancy and Tom Armstrong traded retirement for a new business—summer camps.*



PHOTO: DEAN ARAMSON

*Cali-Camp, in Topanga Canyon, Calif., is among the many day camps throughout the country that are just a short drive away from large urban areas. These girls, who attended Cali-*



PHOTO: CALI-CAMP

*Camp during a recent summer, did not spend the nights in sleeping bags among the bugs. They drove home each day to Los Angeles suburbs, just 10 minutes away.*

cost of tuition. We can't keep up with that demand."

Liability insurance has also become a major headache. For example, the Lincolns were charged \$300 for coverage of each horse in their riding program. Although camp-related claims have been low, many of the activities are considered high risk, and the rates are set accordingly, experts say.

**S**aul Rowen has operated a day camp for the past 27 years. Located in Topanga Canyon, Calif., it offers a rural setting, only a 10-minute drive from Los Angeles suburbs.

Changes in society have led Rowen to alter his philosophy about his camping business. Instead of focusing on the development of in-depth skills, Rowen's Cali-Camp now concentrates on exposing children ages 3 to 13 to dozens of activities ranging from the latest hot interest to producing a camp newspaper.

Though Rowen loves his work, he would not advise a budding entrepreneur to go into camping.

"It is a tough and demanding business," he says. "I'm operating a business, but I am assuming the responsibility of taking care of the most precious thing a parent has. And, I have to rely on others in large part to provide this safety."

Many camp owners have carved out a niche through specialization. Computer camps were the rage several years ago, but interest has been waning.

Computer camps, explains LeMonn, "sprang up when interest in computers first hit it big. As soon as schools and families began to incorporate computers themselves, interest fell off."

Michael and Toby Zabinski originated the idea of computer camps nine years ago and operate National Computer Camps in Ohio, Georgia and Connecticut. "We don't see the tremendous growth we once saw," observes Toby Zabinski. "Now we serve kids with advanced interests who want to go beyond what is offered in the schools."

America's preoccupation with a fit and trim body has spawned a number of camps designed to help campers gain in self-esteem what they lose in weight.

There are 12 Weight Watchers Camps throughout the United States and Canada licensed by Weight Watchers International, and more are planned. Executive Director Michael Sparber says his camps offer all normal camp activities "except that we feed the campers correctly and stress things like aerobics."

Enrollment, reports Sparber, has gone up tremendously every year as people have become more health-conscious. "People know how important it is to eliminate obesity in their children not only for health reasons but also for psychological reasons," he says.

**S**ports camps are exceedingly popular. Some professional athletes trade on their name recognition in attracting budding athletes. Washington Redskins star wide receiver Art Monk lends more than his name to a one-week football camp in the Washington suburbs that drew 400 boys this year, its third in operation. Monk works in all phases of the camp, as administrator, coach and counselor. He says he and a staff of college coach-



## MANAGING YOUR BUSINESS

## The Profit In Camps

es emphasize safety for players in teaching the game's fundamentals.

In addition, two different Redskins talk to the youngsters each day on the importance of avoiding drugs and alcohol and of staying in school. Then the players work with the young kids on the field.

The challenge of the outdoors reaches its zenith in the highly successful Outward Bound camps, founded in the United States in 1962 by Joshua L. Myner, who recently retired as director of admissions of Phillips Academy in Andover, Mass.

There are now five Outward Bound schools in different parts of the country. Each uses its local terrain in a course designed to expand the student's physical and mental abilities. Outward Bound's activities include mountaineering, sailing and day-long survival experiences during which each student sets out into the wilderness alone. This last exercise is more meditative than physically rigorous.

This summer, 13,000 students are expected to complete the Outward Bound program and join the ranks of alumni, who number 165,000.

Outward Bound provides an educational camping experience aimed at adults as well as youth. One third of those going through Outward Bound today are over 30. Corporate enrollment is soaring as companies such as Xerox, General Foods, TRW and Burger King develop their executives' leadership and teamwork skills in the programs.

**T**his comes as no surprise to Caroline Muegge, president of Executive Expeditions of Marietta, Ga. Muegge offers courses teaching group dynamics, leadership and communication, using the outdoors as the classroom.

Her ropes course, for example, consists of a series of logs, cables and platforms built in the trees. Campers start out with relatively easy initiative problems and build up to a finale in which they find themselves suspended by a rope 25 to 45 feet in the air. Participants learn to overcome their fears by completing the course.

Muegge started her company in 1980 and patterned it after the Outward Bound programs, as have many other camp operators. Her clients include small local companies, a hospital, a television station and large corporations like AT&T and U.S. Telecom.

While many camps aimed at adults are designed to improve bodies, souls or

Adult campers can be thrill seekers or nerve testers. Challenging outdoor experiences are offered by such outfits as Outward Bound and Executive Expeditions. These camps, such as

this one on Amelia Island, Fla., also take on corporate groups. These employees from Calibre Company, Tampa, Fla., hone problem-solving skills and encourage teamwork.



PHOTO: EXECUTIVE EXPEDITIONS

job performance, all Norman Amster wants to do is fulfill others' fantasies.

Amster is the driving force behind "Dream Week," in which for \$3,000 a would-have-been major leaguer can spend a week playing baseball with his childhood heroes. Dressed in an authentic team uniform, players use the team's spring training facilities and are coached by retired baseball greats.

The week of drills, intramural games and hobnobbing with heroes culminates in a major league "professional" double-header at Jack Russell Stadium in Clearwater, Fla., which pits the would-have-beens against the once-weres.

Amster got the idea while visiting the Philadelphia Phillies instructional camp in Florida during a 1982 vacation. In addition to the Phillies, Amster now runs programs for the Baltimore Orioles, the New York Mets and the Cincinnati Reds.

The average age of the "Dream Week" participant is 42. Attorney Carl Silverman received the Oriole "Dream Week" as a 40th birthday present from his wife. The high point was having his son see his two hits during a seven-run, game-winning inning.

It just goes to show you are never too old for camp. **16**

## If You Want To Open A Camp

Richard K. Chamberlain, national president of the American Camping Association and a camp consultant, offers this advice for potential camp operators:

"The No. 1 thing to consider is the financial picture," he says. "Purchasing a camp today takes an enormous amount of money and usually takes some creative financing. And don't forget any rehabilitation work on the grounds or the buildings that will add to the cost."

In choosing a campsite, says Chamberlain, consider its location in relation to the clientele. Day camps should be no more than a 45-minute drive.

"If you are buying an established camp," advises Chamberlain, "find out its reputation and its relations with the local community."

And, he continues, "determine if you are buying a clientele or have to start from scratch in recruiting campers."

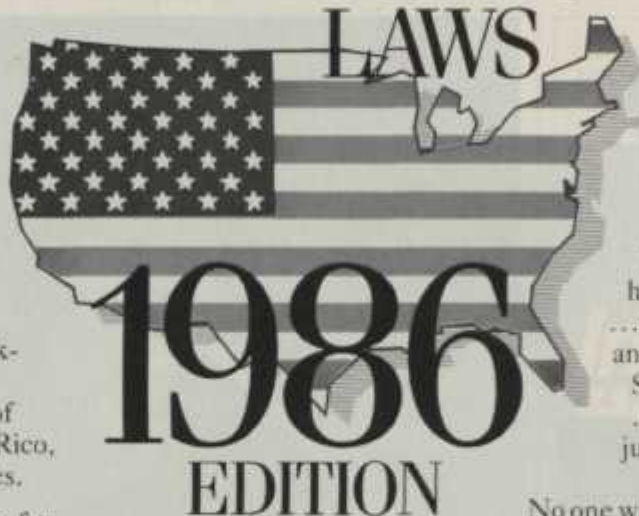
Creativity of leadership, diversity in the programs and a potential for program growth are necessary for a successful camp.

For further information on camping, contact the American Camping Association, Bradford Woods, 5000 State Road 67 North, Martinsville, Ind. 46151-7902.

—Cecelia Blalock



# Analysis of Workers' COMPENSATION LAWS



Prepared and Published Annually by the U.S. Chamber of Commerce.

This unique analysis is a ready reference to the workers' compensation laws of the 50 states, the District of Columbia, Guam, Puerto Rico, and the Canadian provinces.

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# New Agenda For Small Business

*The White House Conference on Small Business will produce sweeping ideas for changes in federal regulations and policies.*

*Robert McGee, chairman of the Virginia state delegation, says this year's White House Conference delegates are sophisticated and dedicated.*



*In preparation for the conference, there were 57 state and territorial meetings and six regional meetings. The regional conferences, like this one*

*in Washington, were held in June to refine the recommendations of the state meetings.*



PHOTO: E. MICHAEL REZA

**W**hen the first White House Conference on Small Business met six years ago, delegates' concerns included a 13 percent inflation rate, an intensifying flow of federal regulations and paper work, an economy in sharp decline, and what they perceived as an anti-enterprise environment in Washington.

Most of them were new to the business of trying to win support for changes in government policies, and organization of the conference was not the most sophisticated.

Another White House Conference on Small Business convenes this month in a significantly changed atmosphere. Inflation has retreated, a strong federal effort to cut regulations and paper work is under way, the economy is generally healthy, and politicians and government officials are competing with each other for the favor of entrepreneurs.

But all small business concerns have not been eliminated over the past six years by any means, and some new issues have arisen since 1980. The nearly 2,000 elected and appointed delegates to

the conference this month will have a full agenda of issues to debate. Their meeting will produce sweeping recommendations on federal policies, laws and regulations in each of 11 areas of concern to employers today.

Those areas are economic policy, finance, innovation, international trade, liability insurance, payroll costs, procurement, regulation and paper work, taxation, training and education, and the future of the Small Business Administration.

Recommendations that were made by at least 40 percent of the state meetings qualified for the agenda at the national meeting.

The liability crisis is a top priority issue because it has had a particularly severe impact on smaller companies. They complain of soaring insurance rates, limited coverage and, in some cases, inability to obtain coverage at any price. Delegates will be pressing for reform of the civil justice system as the key to ending the crisis.

Also on the conference agenda are proposals to:

- Retain the current 6 to 10 percent

investment tax credit (recommended at 40 state meetings). The House- and Senate-passed tax reform bills now before a conference committee would eliminate this tax subsidy.

- Give the President line-item veto authority, which advocates say would help eliminate unneeded federal spending. Currently, the President must veto an entire appropriations bill in order to kill even its smallest spending item.

- Institute a broad-based incentive program to encourage training or retraining of employees by small business owners.

- Repeal the Davis-Bacon Act, which effectively requires almost all federal construction contractors to pay local union wage scales. Studies by the General Accounting Office and others have labeled the act inflationary.

- Prohibit tax-exempt businesses from competing with taxpaying small businesses for sales of goods and services.

- Permanently reauthorize the Small Business Innovation Development Act, which expires Oct. 1, 1988. This statute, enacted at the recommen-

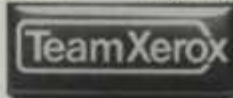


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## THE NATION'S BUSINESS

## New Agenda For Small Business

*A major item on the conference agenda is a recommendation to reauthorize the Small Business Innovation Development Act, which*

*requires federal agencies with large research and development budgets to allocate a portion of that spending to small firms.*

dation of delegates to the 1980 White House conference, requires federal agencies with annual research and development budgets of \$100 million or more to allocate at least 1.25 percent of that spending to small firms.

- Enact tax incentives for investments in small businesses. Delegates say that preferences are needed because investments in small firms are considered especially risky.

- Establish at the federal level a clearinghouse for training and education information.

- Amend the Constitution to require that the annual federal budget be balanced.

- Implement recommendations of the Grace Commission, a presidential panel of private sector volunteers that drafted a detailed plan for multibillion-dollar savings in federal spending.

- Put a moratorium of three to five years on changes in tax laws whether or not the tax reform legislation is enacted this year.

Though many of those stands reflect support of Reagan administration positions, delegates have some disagreements with the President, notably on his proposal to abolish the SBA as an independent agency—a proposal currently being soft-pedaled (see page 14)—or at least to curtail its activities. Some delegates, in fact, are concerned that debate on this issue could detract from debate on other issues at the conference.

The President has urged Congress to eliminate some of the SBA's programs, including its direct lending programs, and transfer the agency's remaining operations—including small business' prized Office of Advocacy—to the Commerce Department.

Reagan says that this would help reduce federal budget deficits while elevating the SBA to cabinet-level status, but many small business people feel it would effectively muffle their voice in Washington.

Delegates to 40 of the 57 state and territorial meetings and all six regional meetings leading to the White House Conference have recommended that the SBA be maintained as an independent agency, and this recommendation will be on the national conference agenda.

Though saving the SBA may be the issue closest to delegates' hearts, ending liability problems by changing the civil justice system will be among the recommendations foremost in their minds.

"The insurance issue had not sur-



PHOTO: WILLIAM JAMES WARREN—WESTLIGHT

faced at all six years ago," says William Stone, president of Louisville Plate Glass Company, Louisville, Ky., and a delegate to both the 1980 and 1986 conferences. "Then it was the reverse—insurance rates were going down to nothing because the inflation and interest rates were so high."

In fact, as recently as Aug. 9, 1985, when the first state meeting preceding the 1986 conference was held in Richmond, Va., few voiced concern about this issue. But by the time the final state meeting was held May 22 in Syracuse, N.Y., business people nationwide were in the midst of a full-blown liability crisis.

In the wake of premium increases and unavailability of policies at any price, many business people have had to raise prices, curtail operations, risk going without insurance or even go out of business.

Two of the most frequent recommendations emerging from the state meetings address this problem.

Delegates in 41 states urged that Congress limit "the amount of liability awards that can be made through the federal judicial system." Delegates at 34 state meetings asked Congress to enact a uniform federal liability standard.

"I want the conference to really hit Congress over the head and make it understand that the court system has been irresponsible and reckless about these awards," Stone says.

Parental leave is another late-emerging issue that is bound to get attention at the conference.

Concern about parental leave legislation now before Congress surfaced only at the regional conferences held in June to refine state meeting recommendations.

This legislation would require employers of five or more workers to provide a new benefit—up to 18 weeks of unpaid but job-protected leave every two years for care of newborn, newly adopted or seriously ill children. The bill also would entitle employees to as much as 26 weeks a year of unpaid disability leave.

Many small business people fear that being unable to adequately fill even one or two key jobs because their occupants are on this leave—and satisfactory recruits cannot be found on a temporary basis—could wreak havoc on their operations.

In addition to the issues being debated, differences between the 1980 and 1986 conferences will be apparent from the nature of the delegates themselves. More than a third of the 1986 participants will be women, compared with 15 percent the last time.

And there is better organization this time, the planners say. Robert McGee, chairman of the Virginia state delegation and president of the Carlton Group, a Richmond financial services firm, says that delegates from his state were pretty casual in 1980, "but we now have well-organized, dedicated and sophisticated people who are committed to sparking legislation that is in the long-range best interests of small business." ■



# After You're Gone

By Nancy L. Croft

**F**inancing a new business can pose major challenges to its founder. But serious problems can also arise when the time comes, as it must, for control of a successful business to be passed to others.

Financial aspects of the transfer can be particularly troublesome if control goes to members of the founder's family. Experts recommend that entrepreneurs launching new ventures make plans from the outset for the ultimate surrender of control.

Failure to plan can precipitate bitter disputes that threaten not only the business but also the family itself.

Lawrence Korn, president of Deferred Benefits Corporation, a Springfield, N.J., financial planning firm, says: "We've seen too many acrimonious situations where, because of conflicting interests, friendly siblings all of a sudden become mortal enemies after the deaths of their parents."

He cites a case in which a father made what seemed to be a fair and simple bequest—his controlling stock in the family business was left to his wife. On her death, it was to be divided equally among their children.

But, Korn recalls, only two of the four children were involved in the business, and they came under incessant demands from the others to produce more income from the firm. Wrangling grew so bitter that the business the father had spent 30 years building was liquidated, and the heirs who had been running it had to start over.

The lesson there, Korn says, is to leave the business only to the children who will work in it and give children not involved in the business other assets of equal value. The owner's life insurance benefits might be one way to compensate heirs who do not receive a share of the business.

Another route, Korn advises, is to have the business establish a charitable foundation. Children not active in running the firm would be given paid jobs with the foundation. The firm's contributions to the foundation are donated to charity only after paying the foundation's operating and managing expenses. Because the firm is engaging in charitable activity, contributions are tax-deductible.

The tax savings would then finance

*Business owners must be prepared to accept that their children may not want to take over the company, says*

*It is often as difficult to pass a business on as to start it. Planning is essential to a smooth transition.*

*Robert Oberst, a New Jersey financial planner. Oberst's own son chose a different field.*



PHOTO: T. MICHAEL KEZA

purchase of additional life insurance to increase the equal-value settlement to children not in the business. But, Korn says, there are reasonable limits to how much the foundation can pay in expenses.

William F. Kovacic, a financial planner and president of Kovacic & Associates, Inc., Hickory Hills, Ill., says a classic problem for business owners' families is the tax liability that follows the death of the founder of a firm.

The heirs are often left with substantial tax bills but little or no liquidity to meet them.

Life insurance on the owner is a good defense against that problem, Kovacic says. But, he adds, the premiums can become significantly higher with the advancing age of the insured, and strategies that shift the estate to the children during the owner's lifetime could then be considered.

Robert J. Oberst, Sr., president of a Red Bank, N.J., financial planning firm bearing his name, discusses from first-hand knowledge another situation entrepreneurs should plan for over the long run:

"My son was associated with me in this firm for several years, and it was my fond hope that he would want to take over the business. But he decided he did not want to be in the finance business.

"It takes a long, arduous interview process to find the right person. When you do, the only way you're really going to keep that individual is to offer a partnership—junior at first, senior later on."

He did just that. And Oberst says he will probably sell the firm to junior partners eventually.

**O**berst adds that efforts to find a successor to carry on the business should not be limited to hiring one person: "There's nothing like some good, clean competition to make the strong people rise to the top."

Overall, financial planners say, the biggest problem in proper planning for transfer of a business is delay. Too many entrepreneurs say they have far higher priorities.

In view of life's uncertainties, planners respond, it is never too early. **B**



# Home Construction On A New Road

By Roger Thompson

If you are about to go shopping for a new home, consider this: Antiquated building and zoning regulations forced on builders by local governments probably add 10 to 25 percent to the price of your dream house.

If you are in the business of building or selling homes, consider this: You undoubtedly would have a broader market if those regulations did not exist.

"The building industry is the most regulated industry in the world," says David Jensen, a Denver land planner. "We think we've designed a system that is protecting the consumer, but we're dead wrong. City councils and planning commissions haven't kept up to date with changes in the industry."

Regulations frequently require builders to turn out the architectural equivalent of a 1960s eight-cylinder road hog, when many buyers today want a high-quality, low-maintenance compact.

Since building and zoning regulations are subject to local government control, builders' complaints about costly regulations are as varied as the communities where they do business. The most burdensome often are the most antiquated.

- Large turnarounds at the ends of cul-de-sacs are holdovers from the days when fire trucks did not have a reverse gear, a situation corrected decades ago. Yet many codes have not changed to allow for smaller T-turnarounds that allow for more compact design and thus cut costs.

- Early in this century the standard for spacing sewer manholes was roughly 200 feet, the distance a lighted candle could be seen to determine a blockage. By the 1950s, spacing increased to 300 feet, based on a worker's ability to manually push cleaning rods through the sewer line. Although mechanical cleaning techniques now can reach 600 feet or more into a sewer line, most codes stick to the antiquated requirements dating from the 1950s or even earlier. Home buyers absorb the extra cost, about \$2,000 a manhole.

- Brigham Young seems to have ordered that Salt Lake City's streets be wide enough for his mule team to make a U-turn. Similar excesses persist throughout the country today, though on a more modest scale. Most communities still require unnecessarily wide res-

*Roger Glunt, a Pittsburgh-area builder, hopes local governments will adopt a new plumbing code that saves hundreds of dollars on rough-in*

*materials and labor costs. He says the savings could be passed along to new home buyers.*

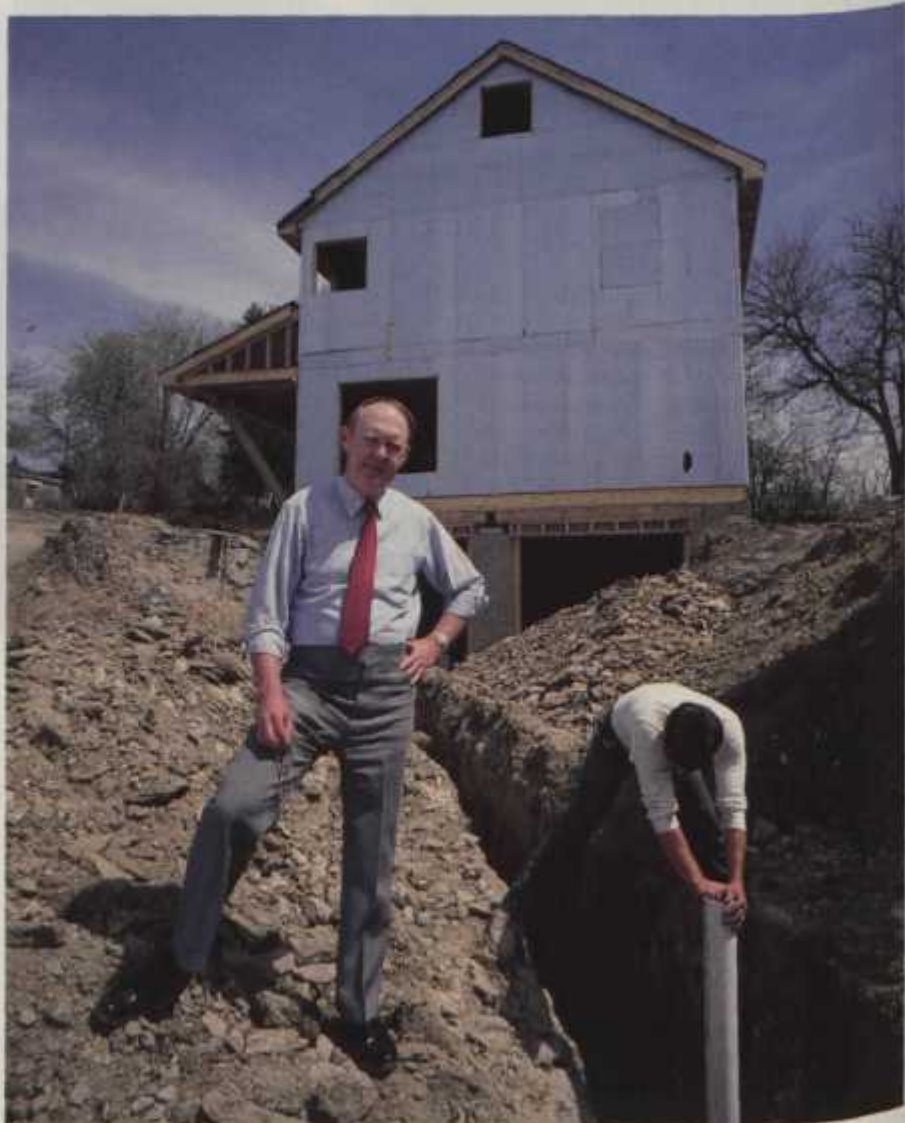


PHOTO: LYNN JOHNSON—BLACK STAR

idential streets designed to meet the needs of grid-like suburban street patterns of the 1950s. Developers pass the added cost along to home buyers.

Local government officials, however, do not accept the view that modern construction techniques have eliminated the need for building regulations and codes.

Those officials say that many rules are based on public safety and health

and cost considerations. Fire marshals argue, for example, that allowing the reduction some builders seek in residential streets could restrict access to fire trucks and other emergency vehicles. Public works directors say that refuse-collection trucks need streets of a certain width to operate efficiently.

When a builder argues that requiring fewer manholes is among the factors that could reduce the cost of houses,



*Outdated local government regulations unnecessarily drive up the costs of building new homes. Innovative techniques can change that.*

city officials say they must ask whether the change would make it more costly to clean clogged sewer lines, a cost that homeowners might eventually bear as higher taxes.

Michael Shibley, director of land use and environmental affairs for the National Association of Home Builders, says, however, that communities should at least be receptive to the idea that changes can be made: "My feeling is, if you can demonstrate that a new technique works, then communities ought to try it."

**T**he builders' concern is based on the continuing high cost of houses despite sharp declines in inflation and mortgage interest rates. Between 1968 and 1984, the Joint Center for Housing Studies, Cambridge, Mass., points out, the price of houses went up 40 percent faster than the income of potential buyers of those houses. The double-digit inflation of the late 1970s and early 1980s drove up costs of materials and labor, while soaring interest rates were depressing sales.

While the days of record inflation are now gone, the average price of a new home reached \$100,700 last year, up approximately \$3,000 from the previous year. In 1968, it was \$26,600.

In 1968 home ownership costs totaled roughly 10 percent of a typical buyer's annual income. The figure today stands at about 33 percent.

While housing sales have been going well in the current period of sharply reduced interest rates, many economists think those rates may have reached their low point and will soon begin rising again, making potential buyers more cost-conscious.

Says John Phillips, a Lacey, Wash., builder: "It takes more than cheap interest rates to make housing affordable." He is a leader in a nationwide effort, the Joint Venture for Affordable Housing, that has successfully demonstrated cost-cutting approaches to home construction. The Department of Housing and Urban Development launched the project in 1982 after a presidential commission concluded that high new home costs resulted in part from "outdated and unnecessary building and land use regulations."

*Michael Chapman, a Santa Fe, N.M., developer, says many local building codes prevent builders from installing rolled curbs on residential*

*streets. Vertical curbs are more expensive, adding hundreds of dollars to the price of a new home.*



PHOTO: STEVE NORTON—BLACK STAR

HUD and the National Association of Home Builders Research Foundation provide technical assistance to builders and local governments that agree to work together to modify building codes and zoning regulations.

Results have been impressive. The Joint Venture for Affordable Housing has sponsored 39 demonstration subdivisions in 32 states. Cost savings range from 2 percent of unit costs to 31 per-

cent, for an average saving of about \$7,000 per unit.

Higher densities saved the most money. "It seems there is a trend in which more and more people don't want large lots," says NAHB President David Smith, a builder in the Washington suburbs. "Fewer people are willing to spend the weekend maintaining the yard."

Even so, builder Rex Rogers had to



## MANAGING YOUR BUSINESS

## Home Construction On A New Road

obtain special permission from the Crittenden County, Ark., planning commission to cut minimum lot size from 7,500 to 3,000 square feet in his 104-unit subdivision, a Joint Venture-sponsored project. "The commission had never adjusted to changing lifestyles," says Rogers. "Sixty percent of my buyers tell me the reason they bought is the smaller lot."

Even if planning commissions approve high density development, elected officials can overrule them. In the suburban Washington area, Smith says he runs into more interference from homeowners than from planning staffs. Owners of traditional large-lot homes typically fight developers who propose adjacent higher density development because they fear a drop in their property values. Elected officials who arbitrate these disputes often side with the homeowners.

But fear of declining land values is unfounded, says Jensen. He says well designed high-density housing appreciates faster than homes in traditional subdivisions. "It's not how dense the

houses are, but how you make them dense," he says.

Other site development savings result from decreasing street rights-of-way and pavement widths and from allowing rolled rather than vertical curbs. "Street design should be based on use, not some arbitrary notion of what is needed," says Michael Shibley, NAHB director of land use and environmental affairs.

**M**ost communities have two standards for residential streets: a 60-foot right-of-way with 36-foot-wide pavement or a 50-foot right-of-way with 26-foot wide pavement. "That's it; you can't do anything else," says Shibley. Both standards require more street width than needed, especially for homes clustered on cul-de-sacs, a design frequently used to avoid the grid pattern of traditional suburban developments. Joint Venture for Affordable Housing demonstration projects have shown that street widths of 20 or 22 feet are adequate to accom-

Rex Rogers, a Marion, Ark., builder, says many new home buyers want small, low-maintenance yards outside but modern kitchens and other amenities inside.



PHOTO: JIM CHAPMAN

modate the low traffic volume on such streets, says Shibley.

Local governments frequently resist rolled curbs, which require less labor to form and pour than vertical curbs. Santa Fe, N.M., permitted builder Michael Chapman to install rolled curbs in the 47-unit first phase of his 154-unit Joint Venture demonstration subdivision.

The city required standard vertical curbs for the remainder of the subdivision, raising the price of a home \$400 to \$500, says Chapman. Although each house had a two-car garage and two more spaces in the driveway, the city argued "that rolled curbs would make it more likely that people would park in their front yards," Chapman says.

When local officials permit higher density, narrower streets, rolled curbs and other innovations, savings quickly add up. In the first phase of their demonstration subdivisions, Chapman saved \$3,845 per unit, Rogers saved \$4,789, and Phillips—who built a 176-unit Joint Venture-backed subdivision in Lacey, Wash.—saved \$3,083.

Streamlined processing of building plans also can trim costs. "Often, documents just sit on someone's desk and don't move," says Roger Glunt, a Pittsburgh area builder. When paper work does move, it may creep from desk to desk, as one person signs off at a time. A speedier process requires simultaneous review of a plan by everyone who must approve it.

Innovative building techniques offer another avenue to cost reductions, but local governments' building codes sometimes do not permit the innova-

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tions. Rogers used the Optimum Value Engineering system in his subdivision and saved \$1,112 on framing, sheathing, plumbing, air conditioning and drywall.

The NAHB Research Foundation designed the OVE system in the 1970s to cut costs while providing sound construction. OVE, for example, permits 24-inch instead of 16-inch spacing in wall, floor and roof framing, use of 2-by 3-inch instead of 2-by 4-inch studs in interior partitions and installation of plastic water pipes rather than copper.

More innovations are on the way. A plumbing system approved last September by the Council of American Building Officials can save about one third of rough-in plumbing costs. The system, developed by the NAHB Research Foundation, reduces the size of water pipes and gas vents without a noticeable difference in operations.

Builder Glunt installed the system in a home near Pittsburgh. "The people living in the house think it's better because they see lower water bills," he says. Glunt likes it because he saved \$565 in plumbing materials and labor on the three-bedroom home.

**A**s a result of cost cutting demonstrated by the Joint Venture for Affordable Housing, says Phillips, Washington State governments have begun to make innovations part of local building and zoning regulations. "Many builders in our area and across the state have started innovative projects, and the result has been that new homes cost about \$10,000 less on average than when we began our innovations."

In Arkansas, Rogers' demonstration project has been copied more than 30 times throughout the state.

Not every demonstration project has been so successful. Chapman says Santa Fe's city council has yet to accept a single recommendation of a mayor's task force on affordable housing. Nonetheless, he does not put all the blame on city officials. Builders who show little interest in trying new approaches also slow the process, he says.

Phillips agrees. Builders must learn to try new techniques, he says, and elected officials must learn that cost cutting does not necessarily lead to a shoddy development. Says Phillips: "Change is a long-term commitment." **MB**

To order reprints of this article, see page 73.

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# Mobile Phones' Business Appeal

By Karen Berney

**T**he booming market for cellular car radio telephones is defying the conventional wisdom. Once thought to be expensive novelties that would appeal primarily to high-powered corporate executives, car phones are fast gaining their largest following among small business people and individual entrepreneurs, say providers of the new technology.

"This high tech product is far from a prestige item, a toy for the elite," says John V. Roach, chairman of Tandy Corporation, whose Radio Shack division is the nation's largest retailer of cellular phones. Rather, it is proving to be a basic "productivity and convenience tool" for local, service-oriented businesses, he says.

From window washers to construction site managers to real estate agents, the demand for cellular phones is so great, adds Roach, "that it is a challenge just to keep them in stock."

Driving that demand are business owners like Harry Kebea, president of 11-employee Advanced Telecommunications, Inc., a distributor of enhanced telephone equipment in Bensalem, Pa.

Although cellular service is more costly than a regular phone line, says Kebea, it is a bargain for any company that makes its living from customer service. "Let's face it," he says. "Anyone can sell a product. What sets you apart from the rest is after-sales support. A car telephone greatly improves overall response time to the customer and helps you stay one step ahead of the competition."

With a car phone, "gone are the days when I used to look less than professional because I missed a meeting after getting stuck in traffic," says Kebea. Now, he calls ahead, and if an emergency arises, he can rearrange his schedule en route and get to a customer's location within an hour of learning about a problem.

Mobile communications have been around since introduction of the two-way radio in the late 1940s. But prior to cellular service, a small firm like Kebea's had little chance of getting a piece of the action: Few frequencies were available to private businesses, and if you got one, it had to be shared by many users—resulting in long delays to get a line.

*With transportable cellular telephones, customers are no longer restricted to using phones in their cars. Handsets like this one, which sell*

*for about \$1,200, go wherever you go and operate in any city that has a cellular network.*



PHOTO: BELL ATLANTIC MOBILE SYSTEMS

By 1982 the technical bugs were exterminated from cellular technology, and the Federal Communications Commission initiated a process that will eventually lead to creation of 305 metropolitan markets. Each will be served by two FCC-licensed cellular operators that can handle up to 50,000 subscribers, so there will be a maximum of 100,000 subscribers in any one market. Currently, 86 cities have either one or two carriers offering cellular service to subscribers that will total 740,000 by the end of the year, estimates Frost & Sullivan, a New York market research firm.

In a cellular system, each geographical area is broken into many cells covering from several city blocks to several square miles. An antenna is set up in each cell to handle calls. As the user moves, a computer hands off the call to the next cell without a break.

Originally all cellular telephones were mounted in cars, but this year manufacturers introduced 11-pound devices that slip from their mounts and can be connected to a battery pack to go anywhere. The next advance will be

models that let the user place calls by voice command instead of hand dialing, which will add \$100 to a phone's base price of about \$1,200.

With the emergence of transportables and low-priced leasing schemes, "we are selling the service like crazy," says Randy Harber, communication manager for BellSouth Mobility, Atlanta. Under the firm's economy plan, which is typical of those being offered by other carriers, a user pays monthly rates of \$99 for the phone and service and \$30 for access to the network, gets 30 minutes of free time monthly and can buy the phone after 18 months. Per minute on-air time averages 35 cents.

**R**ates, though, are coming down, especially in markets where two service providers are battling for customers. In addition, prices of the phones are decreasing between 10 and 20 percent a year, says Tandy Corporation's Roach. "In only a few years you will be able to buy a cellular phone for close to \$500," he says. At that point car phones may be as common as the dashboard clock. **KB**



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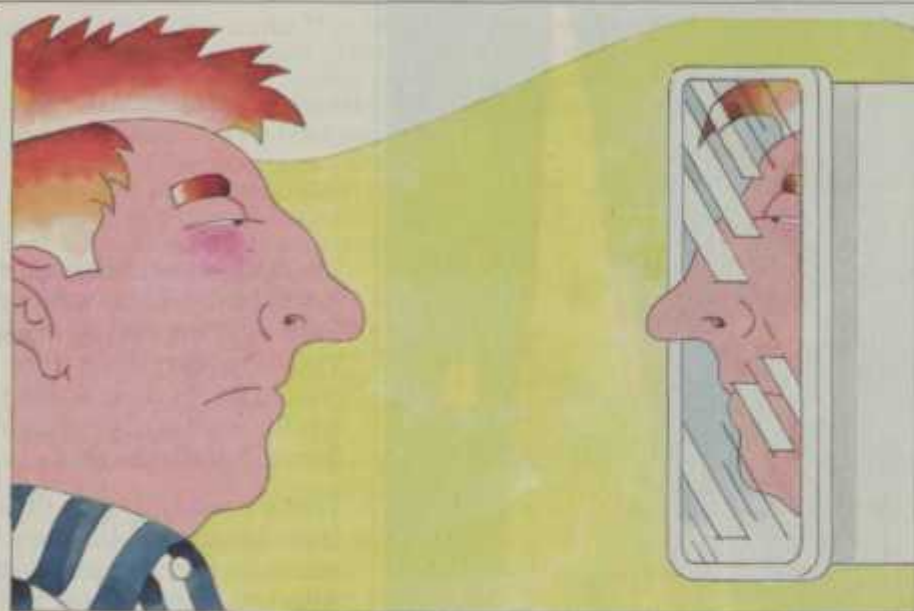
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# Putting On A Happier Face

By Gary M. Kaplan



ILLUSTRATIONS: JACK LEFKOWITZ

**S**purred by social pressures to look the role of the successful business person—dynamic, vital, with it—tens of thousands of men and women have gazed into bathroom mirrors and come to the depressing conclusion that their own natural faces no longer measure up. Sixty-year-olds look like 60-year-olds, 50-year-olds look like 50-year-olds. Even 40-year-olds have to admit they look their age. Mercy, what's a face to do?

Until recently, not much. While jogging has been all the rage for years, it has done nothing for our downtrodden faces. We would try to get by with a new jazzy tie or scarf, hoping against hope that we would somehow look refreshed, even chipper.

"All factors being equal," says New York cosmetic surgeon Robert Schwager, "it is the person who gives the best impression who will get ahead." Indeed, we have all experienced the wisdom in Schwager's words. Really good-looking people (read: dynamic, vital, with it) seem to have doors fly open for them while the rest of us have to push our way through life.

Filled then with pressure and apprehension from our appearance-crazed society, swelling numbers of business

people in recent years have decided not to just sit and age, but rather to do something about the whole demoralizing mess.

Thus it was that the business person sought the cosmetic surgeon and proclaimed him (or her) as good, if not god. The surgeon's scalpel, doctors themselves admit, is limited in its power. It cannot make a 50-year-old look 21. But it most decidedly can give a more refreshed appearance to the patient. Surgeons can also resculpt bumpy noses, pin floppy ears and make other changes to our faces.

The real bonus, however, is that by looking a little better, patients often feel a lot better about themselves, brimming with new confidence and self-esteem. Physical benefits, say those who have had cosmetic surgery, come hand in glove with psychological and emotional benefits, all of which may combine to juice up careers.

"Not only do I look better, but I also feel younger and peppier," says Jim, a suburban New York sales manager who, at 58, recently had a facelift. For Jim, the change in appearance was essential. As the oldest member, by some 15 years, of his marketing group, he felt his pre-facelift presence was negatively perceived by colleagues. "They'd look at me and immediately think 'old school' and set in his ways," he ex-

plains. "When I participated in meetings or joined in casual conversations, I wasn't Jim, sales manager, but Jim, old man sales manager."

After surgery, Jim started wearing his hair in a new style and dressing sharper, and his revitalized appearance brought acceptance by colleagues. "At last I look like a member of the team, instead of a coach," he says.

**A** cceptance by younger colleagues is all well and good, but most cosmetic surgery patients who are business people are angling to even the odds between themselves and younger staff. They see "kids" hired and promoted over them, and men and women their own ages phased out of their companies. If they can look better through surgery, goes their reasoning, they stand to increase their chances of moving up their corporation's ladder—or at least not being bumped off so swiftly.

"If you don't look like a vice president or senior manager, you often won't get chosen for those positions," says Frank, a 53-year-old middle manager. Bypassed repeatedly by younger colleagues for top level positions within his Chicago-based company, and convinced his chances of getting one were sagging along with his jowls and the bags under his eyes, Frank had a facelift.

Terming it an "investment," albeit at \$4,800 a costly one, Frank is confident his new "in-command" look will soon net him a company vice presidency. Nine months after surgery, he still hasn't been taken into that realm. "But I'm not worried," he says. "There's no way they can pass me by now."

According to a report by the American Society of Plastic and Reconstructive Surgeons, in 1984 there were 477,700 "esthetic" operations—elective procedures to make essentially normal people look better. In 1981, by contrast, 296,000 people had such surgery. The number of facelifts jumped 39 percent; chemical peels rose 67 percent. Both surgeries are designed to alleviate signs of aging around the face and neck—something that dieting and aerobic dancing could never do.

Statistics also show that men have gone from 5 percent of cosmetic sur-

Gary M. Kaplan is a San Francisco free-lance writer.



# Social pressures encourage successful business people to look the part—and many are turning to cosmetic surgery.

gery patients to approximately 20 percent. Working women have increased to 25 percent from 10. Says Dr. Lawrence LeWinn, a Palm Springs, Calif., plastic surgeon: "Many business people think, 'I've arrived, and now I want to look the part.' They feel it's their due, and they're happy to have the option of cosmetic surgery open to them."

**B**usiness people who opt for the scalpel, cosmetic surgeons report, generally have done their homework and know what they want. Much as they would tell a house painter what colors to use for the walls and trim, they tell their surgeons where to nip and tuck.

Having realistic expectations of what surgery can and cannot do is essential to a patient's happiness. "A facelift, for instance, will not so much turn back the clock as give its recipient a refreshed, softer look," says Paula Moynahan, a New York cosmetic surgeon. "A good result brings comments such as 'You've had a good weekend' and 'There's something different about you—I just can't figure out what it is.'"

Cosmetic surgeons will, in fact, reject people who are expecting miracles or are going through transition phases. "After all," says LeWinn, "surgery only alters a patient's appearance—compulsions and hangups remain."

A recently fired and divorced middle-aged man who believes all his troubles are due to sagging jowls, for instance, will be turned away. "At that point," says Schwager, "he would expect us to turn his life around, something we simply cannot accomplish."

Of course, it is not just loose skin around the neck and jaw and bags under the eyes that bugs some business people when they look into their bathroom mirrors. A crooked nose and big ears are no joys, either.

"The bump on my nose was a family characteristic I wished hadn't been passed on," says Joe, a 42-year-old Boston marketing representative. "Whenever I met someone, he or she would immediately stare at my nose and not hear a word I said. It was not the most favorable way to make an impression." After a relatively simple procedure, taking little more than an hour, Joe's nose was straightened. "Now when I meet someone, they listen to my words and don't stare at my nose."

Along with 75 percent of cosmetic surgery patients, Joe had his operation done on an outpatient basis, saving both time and money. Still, cosmetic surgery is not cheap. Facelifts range from \$1,500 to \$8,000, with nose and eyelid jobs going for \$600 to \$4,000. And don't expect insurance companies to pick up the tab. "Purely elective cos-

metic surgery is not covered under our policies," says Sandra Stein, a marketing representative of Blue Cross of California. Other health insurers have similar exclusions.

Also, a natural healing process must be accommodated. A facelift, for example, generally takes three weeks to heal, often requiring patients to go on extensive "vacations." Other cosmetic procedures require much less time. Joe had his nose fixed on a Friday and was back to work the following Monday.

Cosmetic surgery, it can be argued, is simply another point along a 1980s continuum that includes eating a balanced diet and wearing designer clothes. Through her Image Enhancement Center, Paula Moynahan has enabled all points along the continuum to stop at her door.

Patients may have an eyelid tuck or other cosmetic procedure performed by Moynahan, then be further enhanced by other specialists in her suite of offices. If patients aren't eating right, for example, they visit a nutrition expert who will plan their meals. If they aren't dressing up to par, they see a fashion consultant who will escort them on a buying trip. And if they have a concern not covered by Moynahan's cadre of in-house experts, she refers them to someone who can straighten them out, including speech and drama coaches, dentists and cosmetic experts.

**W**hile accepting most of the services Moynahan offers, many people still have difficulty with cosmetic surgery, believing that to enhance our presentation is one thing, but to alter it is quite another. It is something of a paradox. "You can diet, lose 60 pounds producing a dramatic change in your appearance, and everybody cheers," says Joe. "If you tell people about your nose job, which likely produced only minimal physical change, you'll get lots of stares and questioning looks."

But acceptance seems to be gaining with the increased numbers of people electing cosmetic surgery. A youth-driven society has altered the way many people view the procedures. With increasing frequency, cosmetic surgery is altering the way they look to each other. **B**





# Franchising

By Ripley Hotch

**T**he health care industry, under pressure from insurance companies and Medicare, is putting far more emphasis on controlling costs.

Large chains like Hospital Corporation of America, Humana, American Medical International and Universal Health Services have stepped in to offer a complete range of health care at reduced cost, often through health maintenance organizations. Business and government insurers have taken advantage of the economies of scale offered by chains. And that, say franchisors, has created a window of opportunity for health care franchising.

"In 1972 only 11 million people had dental insurance; now it's 110 million," says Ronald F. Saverin, cofounder and chief executive officer of Dwight Systems, Inc., parent of Dwight Dental Care Centers. "Employers are trying to trim the costs of these programs. So as medical HMO's have captured significant market share, employers are looking for the same thing in dental care, and virtually nobody is giving it."

Doctors, however, are often uncomfortable at becoming outright employees. At the same time, they have never been known as efficient business people. Franchisors try to provide the efficiency and allow the doctor to keep a traditional doctor-patient relationship, says Bernard Serbin, president of Americare Dental Centers, a five-franchise company in Sun City, Ariz. He calls his franchise "a private practice with a marketing twist."

Chris Miller contributed to this article.

*Dr. Douglas Barton says he was able to get his Lynnwood, Wash., optometry practice off to a faster start because he began as a Pearle Vision franchisee.*



PHOTO: DOUG WILSON—BLACK STAR

Patients stay with a regular dentist instead of seeing whoever is on duty at the time, so that there is continuity, says Serbin. At the same time, the franchise's name can give the beginning or relocating doctor a good start: "They can achieve a customer base in six months that a private practice would take five years to generate."

Dr. Doug Barton, a Lynnwood, Wash., franchisee of Pearle Vision Center—which, with more than 400 units is the best-known health care franchise—agrees that the name gives franchisees a head start: "It's much easier to get into private practice because the Pearle name ensures some kind of immediate customer flow." Barton started his practice as a franchisee almost fresh out of Pacific University.

But he is still bothered by the necessity of being a business person: "It's sometimes difficult to reconcile the business and medical ideas of the operation. I spend more time than I like running the business."

Dr. Donald M. Borsand, president of First Optometry Eye Care Centers, which has 34 franchises, all in Michi-

*Consumers seek convenience and consistency in medical, dental and optometric care. Franchisors say they can deliver.*

gan, says that necessity is encouraging doctors to look at franchising.

Borsand had tried to pull together a group of independent optometrists for the purpose of advertising, but it did not work. They contributed to a fund for a first round of advertising, but "when we went to them the second time around to get money for advertising, they didn't come across," he says. "Loose confederations don't work. You have to have a firm commitment, so that's why we turned to franchising."

He took as his model Century 21, the large real estate franchisor, to create First Optometry. Century 21 was created by "teaming up the little guys" to make a larger operation, says Borsand.

By joining the franchise, Borsand says, the independent keeps his own practice but gains buying power, advertising and sophisticated management techniques not available to the individual optometrist.

Steve Berkman, director of franchise sales for Pearle, agrees that franchising will serve the doctor who wants to be an owner-operator, and for the same reasons that it will draw the customer: "The consumer is looking for convenience, consistency and quality. Franchising lends itself to these needs, because the local entrepreneur will always tailor his services to the particular needs of his market."

**T**he only franchisor in the field of medical clinics (emergency rooms or ambulatory care clinics) is Medical Networks, Inc., of Houston, which builds clinics under the name MedStop. Although individual doctors can open a MedStop, Henry Harper, founder and president of Medical Networks, is offering the clinics as a way for independent hospitals to hold market share against the big chains.

Marketing is the key for all of the health care franchises. As they meet the demand of customers for convenience, low cost and personal attention, says Saverin, the franchises will gain ground against chains. "We even have our own credit card that gives the customer up to \$5,000 instant credit," he says. "So we're giving the franchisees another leg up. We're doing what Sears and the gas companies do: getting repeat business." ■

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# Cooperating For Survival

By Harry Bacas

*General Motors and the UAW run joint seminars to educate workers in the realities of world competition.*

*At General Motors' Washington offices, United Auto Workers members discuss the legislative*

*process with corporate lobbyists. Later the group visited AFL-CIO headquarters.*



PHOTO: T. MICHAEL KEZA

**T**he seeds of a revolution in the American way of producing automobiles may be germinating in a small program conducted jointly by the United Auto Workers and General Motors.

"We in this industry can't go on the way we have in the past," says Jean Hunsaker, local union officer at a small GM fuel injection plant in Sioux City, Iowa.

"Although we make a lot of money, we don't necessarily make the best products. And the Japanese are awfully serious about taking over our industry. It's a tough world out there for us."

Hunsaker and two dozen other UAW local officers from around the country recently took part in one of a series of traveling four-week seminars that go from Ann Arbor, Mich., to Boston, Washington and Detroit.

In the four cities they listened to economists, historians, congressmen, engineers and strategic planners talk about global economics, the role of unionized labor in the history of the auto industry, the political process, emerging technology, and demographic

and cultural trends. The seminars are an experimental activity among more traditional training programs run at a total cost of \$200 million by the joint UAW-GM Human Resource Center in Troy, Mich. They have been so well received that they may be duplicated in smaller local seminars.

"It's probably the best educational process I've ever been through," says Charles McDonald, another seminar participant. He is president of local 2195, which represents workers at a GM steering-gear plant in Alabama that until 1982 was nonunion.

"It presented a lot of information from a trilateral point of view—the UAW, the corporation and an array of independent analysts. For someone like me, secluded down here in Athens, Ala., it was an experience in 'what is the world really like?'"

The seminars, called PEL for Paid Educational Leave, began last fall. They are the most unorthodox of the several kinds of jointly administered training programs set up under the union's 1982 contract with the company and expanded in 1984 bargaining. Ford

and Chrysler also have joint training programs but none quite like this.

Seven groups have gone through PEL so far, and one or two more seminars a month are scheduled into next year.

Says Donald J. Davis, a national UAW official and executive codirector of the Human Resource Center, "From the beginning it has been a two-way exchange, and both company and union people have learned we have more in common than in conflict."

Chester Francke, GM's general director of joint educational activities, says that "the PEL graduates have talked so glowingly about the program that a lot of management people are wondering if we're going to open it up to them."

**I**n Sioux City, Hunsaker, who is financial secretary of local 2173, representing 300 workers in the assembly and calibration of throttle body fuel injection systems, says:

"GM is trying to spread the message as widely as possible that we've all got to pull together. But I'm very unclear as to whether they are training man-



## MANAGING YOUR BUSINESS

## Cooperating For Survival

agement as much as they are training us." She says that the union "has been pushing for greater worker input for 50 years, and guys in other plants have been saying for years to management, 'You're doing this wrong,' without anybody listening."

"GM has a very complex job to do, re-educating those managers in how to make joint programs work."

"I think eventually you are going to see a lot of first-line supervisors go out the door. Workers will have more responsibility for what they do, like Swedish or Japanese auto workers. And we're going to do it better than they do."

Ron Baug, president of local 1097, which has 5,000 members at a GM fuel systems and emission equipment plant in Rochester, N.Y., says: "If American workers are going to turn out a superior product, worker attitude must play a role." He says that "the quality of cars produced by Honda in the U.S. is higher than that of cars Honda produces in Japan. That shows you what American workers can do."

Baug, who attended the second PEL seminar, says it presented "a macro view of the auto industry, including global economics and the effects of currency disparities and all the nontariff barriers to trade."

He adds: "It is difficult to communicate all that to members, but we are trying. UAW members didn't read the handwriting on the wall when American steel, shoes and textiles were being destroyed by imports. They thought the auto industry was forever."

"Now we see that we are vulnerable and that changes have to be made. But how do you tell an industrial worker who is making \$600 a week plus \$200 or more in benefits and overtime that he has to give up all that? It's hard to subject someone to change."

"Well, the membership is coming to understand that change is inevitable, and for the first time rank and file members are asking us in the union, 'What's your strategic plan?'"

**B**aug's local has not waited for the current national agreement to expire in 1987 to reopen its contract. The local recently completed bargaining on contract changes relaxing some union work rules and job classifications in exchange for the company's commitment to bring production of new products to the plant, thus averting layoffs.

"GM is finally recognizing our impor-

tance," Baug says. "We are telling them that together we can find solutions."

Richard Warden, legislative director of the UAW and head of its Washington office, says: "I think GM has been surprised by the seminar participants' sophistication and their understanding of issues like trade."

James D. Johnston, GM's vice president for industry-government relations and head of its Washington office, says seminar members he meets are "a very intelligent, articulate group of people, aggressively advancing the interests of their constituents."

*"UAW members didn't read the handwriting on the wall when American steel, shoes and textiles were being destroyed by imports. They thought the auto industry was forever. Now we see that changes have to be made."*

"I hope that one of the things that will come out of this program is to encourage more labor-management cooperation."

"We want to keep those plants open, too. Look at the Saturn project [the futuristic plant GM is building in Tennessee with the UAW's agreement on innovative worker relations]. That's a \$5 billion bet that we can continue to make cars in this country."

The PEL seminar program is showing signs of sprouting. A participant in the first seminar, Michael E. Bennett, president of local 326 in Flint, Mich., was so inspired by the experience that when he got back to Flint he designed his own seminar just for local people.

Participants were 24 hourly workers and eight salaried workers from the Fisher Guide plant that makes hardware parts for all GM lines.

The seminar, put on with the help of the plant personnel director and using University of Michigan professors, GM Research Center personnel and videos on new technology, lasted one week and covered most subjects in the larger seminar.

The last day, the participants were told to consider a fictitious plant that was losing jobs and threatened with closing. What solutions could they come up with? Retrofit the plant to a Saturn-style operation? Go to fewer classifications? Establish a codetermination process for labor and management?

"Each one came up with a conversion plan to make the plant more competitive, better able to meet the challenge," says Bennett.

**B**ennett says the PEL seminar he attended "gave us an awful lot of information, including confidential strategic planning things. We were impressed with the honesty and openness of the corporation. The information was highly accurate, and some of it was devastating. And I wondered, 'How are we going to transfer this information accurately back to the members?'"

"It is critical for them to understand what kind of revolution is occurring and the catastrophic things that can happen to our industry if we don't change our ways of thinking of the last 50 years."

"The magnitude of the situation hasn't gotten through to a lot of the workers on the floor. Some of them still think in terms of an adversary position, draw a line on the floor and lock horns over it. Middle management needs some educating, too."

Bennett's local program is being studied by GM and may become a model for other local programs.

"The 1987 negotiations will probably be the most serious negotiations GM and the UAW have ever faced," Bennett says. (Both the Ford and GM contracts will be up for renewal in 1987. The Chrysler contract runs until 1988.)

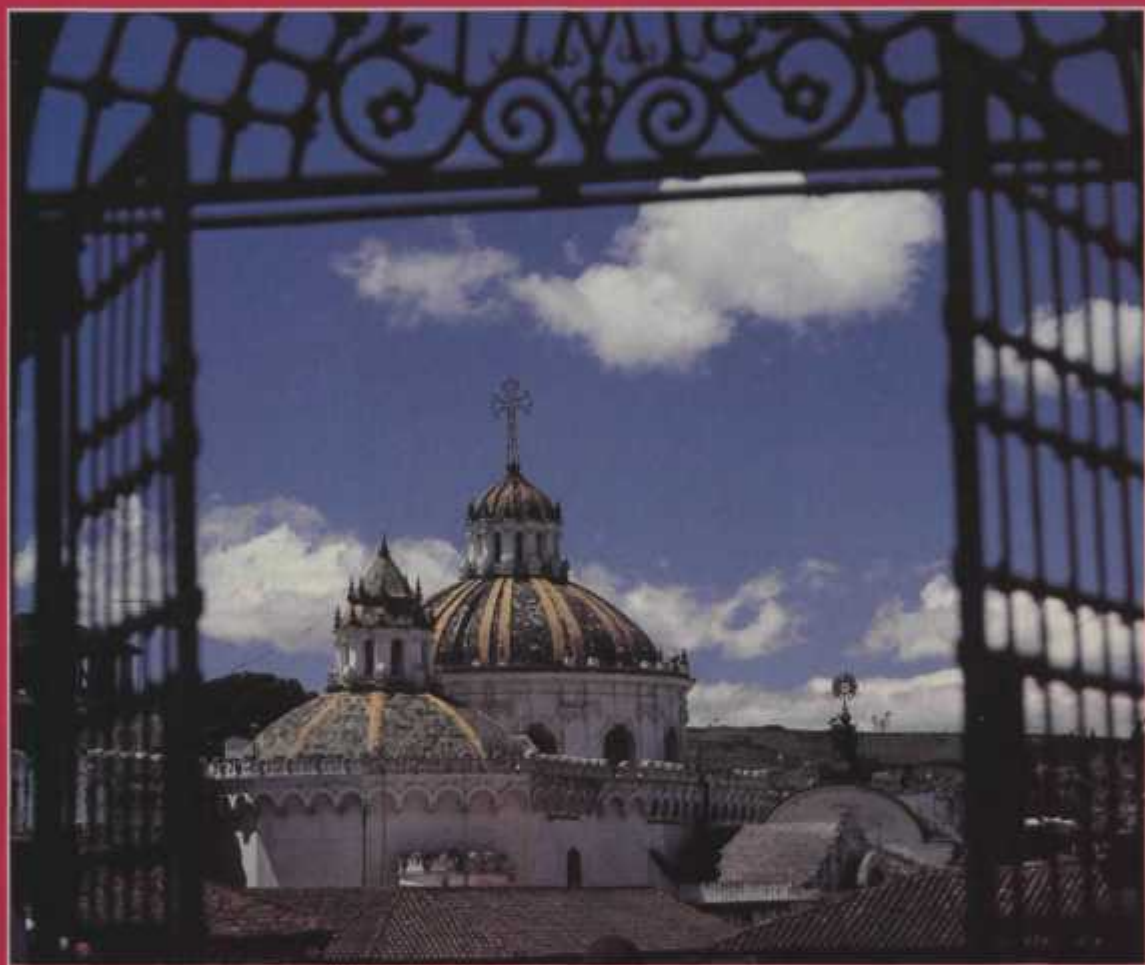
"They will look at our problems, and we will look at theirs. The union's position is that downsizing of work forces be done in a socially acceptable way," Bennett says he believes GM would like to continue manufacturing cars in this country instead of abroad, "but the uncontrollable factor is union and member attitudes."

Kenneth A. Meiklejohn, a national UAW staffer and principal developer of the PEL program for the Human Resource Center, says the program will result in "better informed, more effective local union leaders." He gives the company a lot of credit for that.

"GM," he says, "is remarkably innovative for a corporation its size." ■



# Ecuador





# Revival Of A Free Market Economy

*During his state visit to Washington in January, Ecuadorian President Leon Febres Cordero won many new friends in the American business community with his strong "free market" speech to the U.S. Chamber of Commerce. He said:*

**I**t is a great satisfaction for the President of the Republic of Ecuador to meet with businessmen of this hard-working nation.

However, it is particularly encouraging for me to be here, given the fact that I have been a businessman during a great part of my life.

I have always believed in hard work, and am very pleased when I look back and realize that I have produced more than I have consumed.

It makes me feel that I have made a contribution to society.

*President Leon Febres Cordero, addressing the U.S. Chamber of Commerce in Washington, draws applause with a ringing free enterprise speech.*



PHOTO: T. MICHAEL KEZA

The very same attitude got me involved in politics, for I believe that businessmen must fulfill a social function, that through the workings of competition, free enterprise and free initiatives, entrepreneurs must not only look for their own benefit, but also search for the well-being of society.

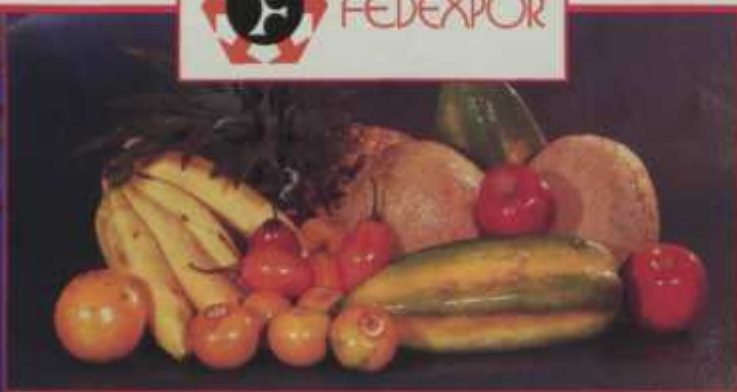
The lack of such an attitude is the most threatening danger that the market economy can face. Entrepreneurs are, within the

## On The Cover

*Colorful city scenes and dramatic country landscapes beckon the visitor to Ecuador. Clockwise from the top: churches in Quito, the nation's capital, by Photo Marggraff—Quito; the presidential palace in Quito by Metropolitan Touring; Ecuadorian fashions by Michel Picard; and San Pablo Lake by Metropolitan Touring.*



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# Mining Investment in Ecuador



**O**n August 22, 1985, a new mining law was enacted to change the way mining is done in Ecuador. The law provides many incentives to investors, who are invited to participate in the process of making this country one of the biggest producers of minerals in Latin America.

These incentives have awakened the interest of mining companies, which have accelerated their exploration for metals. Some are about to begin mining production in areas like Bartolome, Quinara, Portovelo and Nambija. At the same time, the Ecuadorian

Institute of Mines (INEMIN) has activated exploration teams in specific locations to obtain the data to enable bids to be let. These and other areas, when explored, will be subject to a round of bids.

The Ecuadorian government has decided to develop metallic mining activities in the short term, increasing exploration, favoring investment and making the procedure of obtaining a contract fast, easy and safe.

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## E C U A D O R

## Revival Of A Free Market Economy

structure of a society organized around the market economy, an elite with more responsibilities than privileges, with obligations that mean much more than showing good balance sheets and income statements.

**E**cador is a rather unique case in present-day politics. It is a developing nation where the people exercised their right to freely choose their destiny.

They preferred to be ruled by a President who believes in the benefits of a social market economy. The people turned down with their vote the offers made by others who are advocates of state-controlled economies, where individuals have very limited or no rights to create or to use their own initiatives.

Backed by popular support, we were able to recover the Ecuadorian economy from its worst crisis of the past 50 years.

When we took office, in August, 1984, pending external arrears were on the order of \$400 million (about two months of imports).

The debt service ratio for 1985 was going to be 70 percent of our exports.

Today all the external accounts of Ecuador are in order. There are no trade arrears, the foreign debt has been refinanced covering 95 percent of all maturities owed to commercial banks. We have obtained a 12-year maturity period and three years of grace.

We have also rescheduled our obligations with official creditors through the Paris Club.

**W**e are the only country in the world that has reached multi-year financing agreements with both private and official creditors. Inflation has already come down significantly from previous levels.

During the few months before we took office, inflation was fluctuating around 30 percent. By the end of 1985, it was around 23 percent, and during the last half of 1985, the average price increase was about 1 percent per month.

We ended 1985 with a surplus in the consolidated accounts of the public sec-

tor. We have removed price controls, and we have eliminated most subsidies that were imposing a heavy burden on the budget.

We have taken fundamental steps to attract foreign investment. An agreement was signed with the Overseas Private Investment Corporation, and in fact, we were the first country of the Andean Pact to do so.

We have also improved the administration to make foreign investment easier, and we have been very active in all negotiations. As a result, some very important contracts are already in place in the oil sector.

Let me tell you that Ecuador had not signed any contracts in more than 10 years. In only a few months in the government, we were able to sign contracts with Occidental Petroleum, with the Esso-Hispanoil Consortium, with Belco Corporation, with Texaco and with British Petroleum. Soon after we go back to Ecuador, we will be signing with Conoco, and negotiations are very advanced with many other companies.

We have passed a new mining law which has important incentives for exploration and exploitation of mineral resources. We have seen a good response to the new law. Two contracts have so far been signed, and more than 12 are being negotiated by the Mining Institute of Ecuador.

Economic recovery is not possible without a financial system that can adequately mobilize resources. Fundamental changes were implemented to the outdated body of laws that govern the financial system of Ecuador.

**A**mong the many important changes, we have allowed for interest rates to be freely set by market forces. We have also permitted variable rates for medium- and long-term lending. These measures have already resulted in substantial increases in internal savings, which, as you all know, are so important for the investment needs of any country.

You can be certain that we are doing our job.

Ecuador today is a country open to trade, to business opportunities, to foreign investment and to commercial relations with all nations of the world. That is why, during this state visit, I have not hesitated to share my views with the business community, instead of dedicating our time only to official ceremonies.

I said that I had been a businessman, therefore I understand that the president of a developing country should be the first

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*Ecuador's Paute Hydroelectric Dam is one of numerous energy sources available to manufacturers that wish to locate in Ecuador.*



promoter of his nation. To tell you the truth, I am glad that in my case the promotion of Ecuador does not mean telling you what we plan to do, but instead what we already and so successfully have done. It is with great effort that we have been able to reconstruct our economy in a relatively short amount of time. This effort cannot and should not be alien to the international business community, and much less to that of the United States of America.

You have both the privilege and the responsibility of belonging to this country, which exercises a clear leadership in the world's economy, which also leads the world in innovation, new techniques and inventions, and to which many others look for new ideas and new ways to solve their own problems. I said that entrepreneurs and businessmen have responsibilities. Now I point out to you that, as business leaders of this country, which leads the world in so many ways, your responsibility is even greater.

I invite you to look carefully at the Ecuadorian case, and to realize what it could mean to the free world if we succeed with our policies. I invite you to come to Ecuador to share your financial resources and your technical and managerial know-how. We can be very good partners.

Our country has a generous endowment of natural resources, large mineral deposits yet to be explored, a rich ocean, vast forests, climates to suit any particular agricultural product and marvelous scenery. But above all, our best resource is our people: an integrated and hardworking population

that believes in God and His teachings, that respects law and order, that has maintained a tradition of peace and respect for human values.

It is this invaluable asset, our people, which guarantees the prevalence of human rights. It is this population that pays no heed to extremist positions or attitudes that may threaten life, liberty, private property and security.

I most cordially invite you to come to our country and to participate in our progress and in the progress of the western and free world. I trust in the enterprising spirit, the willingness to risk and the capacity to act of the businessmen of this great nation. **■**

## Investing In Industry

By Gustavo M. Pinto

Ecuador can still be considered an underdeveloped country if you compare its statistical figures with those of many other countries. But if you look closer at specific numbers and individual situations, you can see real potential for investments.

When you meet people in industrial activities in Ecuador, you find optimistic managers, investors and entrepreneurs who have faith in their country, their government and their ability to succeed. They are willing to risk capital and time and cooperate with authorities to efficiently solve the problems of today and tomorrow. When you talk to the government officials who regulate industrial activity, you also find optimism and a cooperative spirit toward private enterprise.

There is an excellent framework for the development of private enterprise in Ecuador. There are many reasons to invest capital, time and effort to install new plants or expand existing ones in numerous industrial fields, as well as in agribusiness and mining.

As you may expect, there are problems for industry in Ecuador. The availability of credit is limited. There are technological limitations and limitations due to the small domestic market. There is a great dependency on imported materials, a complicated system of customs duties and unclear rules for income taxes. But is this not true in many countries?

Private enterprise is our guide. That means solving problems as they are presented to you, having the state acting only in certain fields. The private sector is assuming fully its role and its share of sacri-

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## E C U A D O R

## Investing in Industry

*Agricultural research is paving the way for a promising food processing*

*industry, one that will build from Ecuador's abundance in land wealth.*

fice both to solve the present difficult economic situation and to develop our country with a view toward a tomorrow with better benefits for everyone.

In the past two years, under the new government, there has been a positive attitude toward policies favoring private enterprise. The government is trying to keep politics out of the picture as much as possible so business can develop more freely. This attitude is not very common in Latin America, and we are proud to be an example.

There is a considerable amount of foreign investment in Ecuadorian industry. It has been growing every year in many fields. To maintain this trend it is necessary to have partners instead of creditors. We are sure Ecuador offers better opportunities than many other countries. It is also important to continue investments in agriculture and mining.

The economy of Ecuador depends to a large extent upon the exports of crude oil, the price of which has been dropping to levels impossible to predict. The trend has caused considerable shortages of foreign



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currency for imports we need. This has forced the private sector to pay more taxes and accept higher interest rates. It has forced business to make maximum contributions to keep Ecuador developing as fast as possible. Ecuador's industry is responding faster and more efficiently than we ever expected.

*Gustavo M. Pinto is the president of the Chamber of Industry.*

## An Efficient Trading System

*Marcos Espinel, president of the Banco Nacional de Fomento and former economic adviser to Ecuador's central bank, describes in an interview with Nation's Business the new and liberalized trading policy of Ecuador.*

**Why did the government take control of external trade?**

For some time the government has been aware of the negative effects of foreign trade irregularities such as the loss of foreign exchange and tax evasion involving imports and exports. Serious damage to the economy occurred when large amounts of money were taken abroad in order to escape taxation.

Also, imports had been increasing and the quality of exported products was declining. Many substandard imports were clearing customs. These overpriced imports put a drain on the economy by contributing to inflation.

To avoid dependence upon foreign loans and ensure the vital flow of commerce, the Febres Cordero government implemented, as part of its package of economic reforms, technical and administrative controls on imports and exports. However, it must be noted that at no time did the government consider nationalizing foreign trade as some other countries have done in order to avoid the abuses mentioned above. The President sees the private sector as the driving force behind his government.

**What difficulties were encountered when the system was first implemented, and how did they affect the interests of foreign and domestic importers and exporters?**

Of course, in the beginning both foreign and domestic importers and exporters resisted these changes. Many different interests attempted to counteract the measures instituted by the new government to reshape the economy and combat the corruption that had been a part of Ecuador's foreign trade system. Therefore, in addition to the difficulties associated with implementing these reforms, there were many complaints and false accusations that had to be confronted.

The early faults in the new methods and procedures were corrected. A more efficient and reliable system evolved. The Ecuadorian Central Bank and other government entities were unable to implement this system by themselves, so they decided to hire a professional and internationally respected Swiss consulting firm. This company, the Societe Generale de Surveillance S.A. (SGS), founded in 1878

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## E C U A D O R

## An Efficient Trading System

*Ecuadorians are fast developing an infrastructure, including the Pasquales Electric Distribution Center, to aid industry.*

in Geneva, operates worldwide. SGS has offices in 140 countries and employs 18,500 technicians.

#### Is the new system working?

Since its inception on Dec. 31, 1985, the system has restructured Ecuador's trading system. The results have been beyond previous expectations. Foreign trade has notably expanded. And customs revenues went up at the same time imports decreased.

#### Have importers and exporters reduced their opposition to the system of control and verification of foreign trade?

Yes. Both Ecuadorian and foreign traders have come to realize that dealing honestly benefits all in the long run. Resistance to these new procedures is steadily decreasing. The Ecuadorian government plans to maintain these reforms for the overall benefit of the people, to improve its international image and to uphold the interests of legitimate business people and agricultural producers.



PHOTO: INTER-AMERICAN DEVELOPMENT BANK

## Incentives For Investment

Ecuadorian investment opportunities that offer the surest chances of success are in agribusiness, mining and tourism, says Finance Minister Alberto Dahik. The free enterprise government of President Leon Febres Cordero is sweeping aside many impediments to investment in these areas and welcoming both domestic and export-aimed operations. "Some of the red tape also has been dismantled to make foreign investment in Ecuador easier," Dahik says.

"The country maintains a peaceful environment, respects contracts, meets all obligations and doesn't repudiate foreign debt," says Dahik. He adds: "We have just had peaceful congressional elections in June, and the government party, the Social Christians, doubled their number of representatives."

He suggests shrimping as one area



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*Guayaquil, Ecuador's chief port, boasts modern facilities able to handle anticipated increases in imports and exports.*

with rich potential in the Pacific-facing nation. Ecuador's main crops are bananas, sugar, cocoa, rice, wheat, barley, potatoes, green vegetables and cut flowers.

Recently, says Dahik, price controls were lifted from Ecuadorian food production. This has brought farmers in more direct contact with buyers, boosting production and incomes. "For the first time in many years, we will be able to have agricultural surpluses for export," he notes. In the past, agriculture was overregulated and insulated from the marketplace.

"Now," he says, "we have a commodities market where agricultural products are traded without the intermediary who traditionally has been the beneficiary."

Ecuador has abundant deposits of petroleum and minerals. Already, oil provides the biggest export market, but there is potential for the development of metals like gold, silver, copper and lead. "A new law passed last year creates a free zone for the export market. Other laws create very important incentives in shrimping and agribusiness," says Dahik.

With soaring mountains, lush beaches,



PHOTO: WORLD BANK

a temperate climate and a peaceful political atmosphere, Ecuador could become a leading tourism center in the Western Hemisphere.

To encourage tourism entrepreneurs, the Febres Cordero government is granting tax breaks to investors and allowing many of the goods needed for the development of tourism facilities to enter the country without heavy duties. "There are exemptions on income tax for several years for those who invest in tourism," says Dahik. "And if there is an investment in tourism that requires imports of equipment for hotels or resorts, there are ways to bring them in tax-free, with no tariffs."

With oil prices declining, Ecuador is casting about for new and permanent sources of foreign exchange to bolster its economy to protect it from the shocks of global petroleum price fluctuations. Its people are highly motivated and eager to have careers in new industries. With the backing of a government filled with businessmen like Febres Cordero and Dahik, Ecuador is becoming a haven for new ventures.



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# Look Before You Lease

By Harrison L. Moore

**S**igning office leases imposes expensive future liabilities on business people, but most sign them with too little thought. Office needs can change with business conditions, and companies can get stuck with expensive, impractical leases.

A California real estate broker tells of a disk drive manufacturer locked into a five-year lease that he thought was a real deal when sales were booming. It turned out to be an albatross instead when the business' success called for larger, more impressive quarters.

Unpleasant, or inappropriate, new neighbors can also tarnish a business address and make the tenant want to move. In a Cincinnati suburb, two massage parlors rented space in a new building on the same floor where a law partnership had located. The lawyers, disturbed about the impact on their firm's image, wanted to move out. But they were unable to break a two-year lease.

What should you watch out for in negotiating a business lease? Attention to a few basics, say real estate brokers throughout the country, will help you sign the lease for your new quarters with confidence.

The building's location and character can affect your business. Is the address appropriate for your type of enterprise? Is the space right for you? For example, is it important to command prestige premises at the top of a skyscraper with a customer-impressing view, or do you need only modest work space? If customers will call frequently, is the space convenient to the elevators, and does it have a suitable reception area?

Not all your rent will go for usable space. You are also paying for space taken up by ventilation ducts and elevator shafts. Loss factors usually run between 20 and 30 percent of the leased footage. On the other hand, remember

that you are also paying for amenities not strictly included in your floor space, such as common hallways, landscaping and restrooms.

If you are investigating a new building, remember that supply and demand determine rent. The first tenant to commit to a building is important to the landlord and can usually bid down the rent. The lessee's presence attracts other tenants, and the landlord can use the signed lease as collateral with the bank.

**R**ent has two components: a base rent per square foot and variables—costs relating to the property that are assessed to the lessee. Most variables come in the form of escalators, designed to protect the landlord against future cost increases.

Three principal escalators are operating expenses (building maintenance and utilities), taxes and cost of living. Tenants are generally assessed a pro rata share of a building's total maintenance. The landlord might, as an alternative, simply tie the escalators to an index, such as the consumer price index. You can find many varieties and combinations of escalators in today's marketplace. Evaluate them carefully.

In a tight market for commercial real estate, the operating expense provision can turn into a profit center for the landlord. By and large, real estate men say, operating expense charges reflect actual operating expenses. But beware. Consider this instance:

The owner of a building in Manhattan operated a theater on his lower floors and leased the rest of the building. He charged his tenants 100 percent of operating expenses. Then, since the theater was losing money, he converted it into office space and charged his new lessees a 15 percent share of total operating expenses. Upshot: The lessor got 115 percent of operating expenses from tenants.

As a lessee in a new building—or one that is not fully leased—consider how the base year's assessment will affect rents in the future. Will increased occu-



PHOTO: DAVID WOODSELL

Harrison L. Moore is a Boston freelance writer.



*Your lease locks you into obligations. Familiarity with specific provisions can guarantee flexibility when you need it.*

pany lower your pro rata share? If vacancies persist, will you continue to bear a heavy assessment?

Escalator costs can also make a difference in the future cost of your lease. One office that might have a base rent of \$300 a month may be more expensive ultimately than one that rents for \$350 if its escalator clause calls for a greater annual increase. Beware of false economy.

After you choose your new location, and before you sign the lease, outline your office's physical needs in a work letter or building standards letter. The work letter, maybe the most thoroughly negotiated item in the leasing transaction, states how the landlord will prepare the premises for occupancy. It should define materials and spell out exact specifications for walls, carpet, doors and frames, lighting and air conditioning. Given the considerable cost of improving office space, you should understand exactly what the landlord has agreed to do.

**M**ake sure the lease clauses offer you flexibility—the ability to sublet or get out of the lease entirely. Today's business conditions may bear little resemblance to those two or five years down the road. If you do not negotiate flexible terms, you may well be saddled with a very costly liability in the future. The landlord, of course, also has business interests, so work to achieve a balance.

One clause may be so restrictive as to render several less restrictive clauses of little benefit. For example, though the tenant may have negotiated flexible subleasing rights, a narrow use clause would drastically restrict his potential market. If you are restricted to subletting only to opticians, you lose the opportunity to attract doctors, dentists and other health practitioners. Therefore, it is important to identify all the clauses that could be harmful to you down the road.

What are the critical clauses?

**Subleasing:** Often, during the life of a



PHOTO: DAVID VALDEZ

lease, a lessee wants to sublet part or all of the space for a while. The phrase in many leases that the landlord's written consent "shall not unreasonably be withheld" may be inadequate. A clause may also contain "recapture rights" that permit the landlord to reclaim the excess space in a tight market and lease it himself at a higher rent. The profit from subleasing may be considerable in a booming real estate market. Who gets it? The sublessor or the landlord?

If you sell your company, can you assign the lease to your acquirer? Not unless that assignment right is specifically stated.

Be sure you can redesign the space if you sublet. No two companies want their offices laid out exactly the same. A sublessee may require sliding glass doors, or addition or removal of a partition, none of which can be legally done without specific inclusion in the lease.

**Business hours:** If it is important to you, be sure you have round-the-clock access to your office. Generally, the hours clause allows the landlord to turn off the air conditioning and send in the cleaning people after 6:00 p.m., rather than to restrict tenants' access to the building.

**Option to expand:** With a growing business, you may eventually want more space.

**Option to renew:** If you are happy with the property and expect to stay after the lease expires, a fixed-price renewal option in your lease will help you establish ahead of time what any increase will be.

If the market is glutted with excess space at renewal time, you still can dicker for a better deal by asking for a lower rent with the threat of moving out.

**Nondisturbance:** Your rights as a lessee may depend on the landlord's fulfillment of obligations to others—the mortgage holder, for example. If these obligations are not met, another party may legally take over the building management, abrogate the lease and throw you out.

For your protection, negotiate a provision to ensure continued occupation of the premises regardless of the landlord's performance.

**Partnership liability:** In partnerships, all principals generally assume the lease liability. When you retire from a partnership, are you still liable for the rent? Suppose you, the retiring partner, are worth \$1 million and there are two others worth only a total of \$10,000. The landlord would have a completely different tenant situation if you retired. Unless otherwise stated, you would still be liable.

Be sure to evaluate the building management company before signing the lease. Does the building management quickly fix broken elevators? Is it flexible about late checks? In extreme situations, the nature of the management could be critical.

Any lease for business space is a complex document. Regardless of how specific the terms are, differing interpretations are possible. Says one Boston real estate agent, "With the stakes so high, and rent such a major expense, you would be foolish not to understand the significance of each item in your company's lease. Because if business goes south, the latitude permitted by your lease could make or break a struggling firm." ■



# For Your Tax File

*Casualty loss deduction for permanent loss of property value; a hidden barb in mortgage refinancings.*

By Gerald W. Padwe, C.P.A.

## If The Buyer Resists, You May Have A Casualty Loss

Conditions that generate buyer resistance to the purchase of property are not ordinarily recognized as the basis for a casualty loss claim on a tax return. It is no surprise that the Internal Revenue Service rejects the idea that they should be considered as such.

Casualties arise only from sudden, dramatic reductions in value or losses, the IRS holds, and deductions are normally measured by the cost of repairs or replacements. But a recent decision by the U.S. Court of Appeals for the 11th Circuit casts a new light on the IRS position. The court held that a casualty loss may be claimed on the basis of buyer resistance, if that resistance is likely to be permanent.

A taxpayer who brought the case owned one of 12 houses on a cul-de-sac near a creek. Several of the houses suffered flood damage when the creek rose, and damage to seven was so extensive the city tore them down, leaving their lots vacant. The home of the taxpayer who eventually brought the suit against the IRS suffered minor flood damage and was left standing.

The owner claimed that the loss was substantially greater than the cost of repairing the direct damage because post-flood conditions in the cul-de-sac had generated buyer resistance to paying what had been the fair market value of the homes before the flood.

However, the IRS limited the casualty loss deduction to the cost of repairs.

In an ensuing U.S. district court trial, a jury held that the case was not similar to those decided previously in favor of the IRS where buyer resistance was considered a temporary problem not likely to affect the value of the property permanently.

The jury said that buyer resistance to the property in the flood-damage area would be permanent. Upholding that



decision, the court of appeals declined to follow contrary decisions in other federal circuit courts. It was held that buyer resistance would be permanent, not so much because of the possibility of more flooding, but because removing the seven houses had changed the nature of the neighborhood. It also pointed out that local taxing authorities had reduced the appraised value of the house because of the changed surroundings.

The case is considered a breakthrough because of its potential for encouraging other taxpayers to seek the same type of relief from the IRS policy.

## The IRS' Nasty News On Refinancing Mortgages

The Internal Revenue Service brings bad tidings for many homeowners with an announcement that points (interest paid in advance) in refinancing a mortgage on a principal residence are not deductible in full for the year in which they were paid. The IRS says that an upcoming ruling on the subject will not constitute a change in its position, only a formal clarification. Therefore, the holding would apply to already completed refinancings, as well as all those in the future.

Taxpayers anticipating the full deduction have been relying on a tax law provision covering interest paid in advance on a loan made for more than one year. Users of the cash method of accounting, which includes virtually all individual taxpayers, must ordinarily prorate an advance interest payment over the life of the loan. Note, however, that, for mortgage loans, the monthly payments include current interest only, which is fully deductible.

An exception is made, however, for loans obtained to purchase or improve a principal residence and backed by a mortgage on the property. Points are

deductible in full in the year paid, provided the payment of points is an established practice in the community and the number of points paid does not exceed those generally charged.

Payment of points has gained high visibility as a result of the recent flood of mortgage refinancings.

The IRS is not challenging the refinancings on the grounds that they might fail to meet conditions in the law—that payment of points is not a general practice in the particular community or that the number of points is excessive. The tax agency is looking at the requirement that, to qualify for a lump-sum deduction, the points be paid "in connection with the purchase or improvement of" a principal residence.

In the eyes of the IRS, the refinancings do not meet that standard. The service says the refinancings are actually retirement of old indebtedness—the original mortgage—and not borrowing for the acquisition or improvement of the property. Thus, the IRS says, the payment of the points does not meet the law's standard for full current deductibility.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.



# Making It

## House-Sitting Pretty

House sitters for America's Home Caretakers have the best of two worlds. They live in homes that normally would rent for \$500 to \$1,500 but pay a monthly fee of only \$150 to \$200.

Brian Graves, president of the firm that provides temporary live-in caretakers for vacant houses and condominiums, says it offers a great opportunity for young couples: "They can save the money for a down payment on a house of their own."

But homeowners are the real beneficiaries of his service, for two reasons:

- (1) Occupied houses sell faster than vacant ones.
- (2) Caretakers protect the homeowners' investment.

Vacant houses are more vulnerable to vandalism and damage from such things as undiscovered frozen pipes or leaking roofs, Graves points out. Vacancy clauses in homeowners' insurance may automatically exclude coverage for such damage if a house has been unoccupied for 30 days or more.

And rates to insure vacant homes are at least four times higher than regular homeowners' insurance.

Graves got the idea for the business during the last economic downturn, when so many houses were on the market, often with absentee owners. He is the first to point out that house sitting is not a new idea, but, he says, it is usually privately arranged. His business is an organized, professional service that provides a live-in caretaker until the house is sold.

The service costs the homeowner nothing. The only fee is a minimal monthly amount paid directly to Caretakers by the temporary occupants of the house. (The homeowner, of course, has to keep up any mortgage payments.)

Graves says he has no trouble attracting reliable people to serve as live-in caretakers: "They are quality people who hope to save a little money and don't mind a little adventure." They are referred to him by churches, colleges, real estate agents and other caretakers.

*Brian Graves' company puts temporary caretakers like Marilyn Smith in unoccupied homes for sale in the Seattle area.*



PHOTO: BOB WILSON—BLACK STAR

His company thoroughly screens all applicants, who must be bondable, and carries tenant liability insurance on them.

Temporary caretakers average three to five months in a house, although there is no minimum or maximum length of stay.

In return for their bargain housing, they pay the utility bills and keep house and yard in apple pie order. They may have neither children nor pets and must have sufficient furniture to decorate several rooms tastefully. And, of course, they must be willing to move—often on short notice.

His business is "definitely not a get-rich-quick scheme," Graves says. "It takes plenty of hard work." He says the secret is attention to detail and guaranteed performance. Caretakers not only is careful in choosing someone to live in a home, it also regularly monitors the house to be sure the place is being properly cared for. Graves' formula is paying off—he projects net income for 1986 at \$100,000.

Graves, who went into real estate after running his own retail music busi-

*House-sitting with a difference; a garage that cares for more than parking; an exchange for used computers; twins who sew instead of sing.*

ness for 25 years, started Caretakers with two partners in April, 1984. He has since bought out both partners.

The business, headquartered in Redmond, Wash., now serves about 100 homes in the Seattle area and has expanded to include a half dozen associates in satellite offices in Washington and Oregon.

Clients include 20 Northwest financial institutions, which Graves considers an important measure of both his firm's service and success.

Graves says Caretakers has a long-term goal of developing franchises nationally but does not want to move too fast.

"Any new business is very fragile," he says. "We'll have to have all our ducks in a row before we franchise."

But the future does look bright. Graves cites U.S. Census Bureau statistics that almost half of houses sold are vacant six months or more before sale.

That figure represents plenty of homeowners who are potential customers for Caretakers' brand of tender loving care.

—Joan C. Johnson



## Making It

## Where Parking Is Only Part Of It

Carter's VSP Airport Parking, located on Hollywood Way across the street from the Burbank, Calif., airport, is a parking lot with a difference. It is a place for the pampered Porsche, the mothered Maserati, the fawned-over Ferrari. It is the automotive equivalent of the "A" party list, a place where your Corvette or Saab can be roped off from the flotsam and jetsam that would normally sidle alongside with impunity.

You know the normal routine when you drive to an airport. Take a ticket from a machine. Drive in circles looking for a spot. Worry about leaving your car exposed to the elements, to thieves in search of stereos, to the sharp-edged doors of other cars parking beside yours. Trek to the terminal. Repeat the journey when you return and hope you have enough cash on hand to get out of the lot.

At Carter's, a \$1 million six-level lot built in 1978, the routine is a little different. An attendant meets you at the entrance. While he tells you which spaces are available, another attendant loads your luggage onto a shuttle van, which will take you to your terminal within five minutes. (Burbank Airport is about one-eighth the size of LAX, Los Angeles' primary airport.) When you return, you can call the garage from the airport on a courtesy phone and the van will again be there within five minutes. Get your car, have the attendant load your luggage and pay your bill—with a credit card, if you want.

"We saw a real need for a place like this," says Doug Carter, 42, who owns the garage with his wife Joan. "People don't like leaving expensive cars unprotected in public lots, and they're usually willing to pay for good service."

Seems like he is right. On a recent day, a quick check of Carter's turned up three Porsches, 11 Mercedeses, four BMWs, two Corvettes, two Volvos, one Maserati, one Lincoln and a Saab. Not the low-rent district.

With all that fancy metal, you might think Carter's would attract car thieves and vandals. But there has not been a single act of vandalism since the garage opened. Heavy metal bars, curved and pointed at the top, block all entrances and make the garage singularly unattractive to criminals. "Besides," Carter says, "why should they struggle to try getting in this place when they can just walk into the [airport] lot across the street?"

Carter's started as a service station run by Doug's father, Jim, in 1955. In

## PEOPLE

Doug and Joan Carter own VSP Airport Parking, a lot with a difference near the Burbank, Calif.,

airport. Cars are pampered, and their owners are showered with services.



PHOTO BY WHEELER-BLACK STAR

1978, the 250-car garage was built on land adjoining the station. Today, Carter's is the temporary home to about 3,000 cars monthly and grosses "somewhere between \$500,000 and \$1 million a year," according to Doug Carter.

The secret is really no secret—plain old-fashioned service, and prices that are often lower than the airport lot. Carter's daily rates range from \$8 for rooftop spaces to \$12 for premium stalls, which are 10 feet wide instead of the usual 8½ and are surrounded by a rope to guarantee no more dings to nervous owners. The public lot charges from \$4 a day at remote locations to \$18 a day in covered spots.

Carter has also worked at developing business clients and now has more than 70 who pay \$200 a year—in addition to the regular parking fee—to reserve a space in the lot. Individuals can reserve a space on their credit cards for \$10 (in

addition to the parking fee). About 20 companies rent spaces by the month, at 25 to 30 percent off the day rate. "Corporations like knowing there is a good, safe place where their executives or clients can park and get to the terminal quickly," Carter says. "A corporation can just leave a company car here at all times for its employees."

Five television monitors help Carter's 17 employees keep track of which garage spaces are open. Eight walkie-talkies keep Carter in touch with the shuttle vans, entrance and baggage attendants and any employee who may be called on to, say, put air in a customer's low tire or jump-start a car for \$4.

In Los Angeles, where you are what you drive and where some people swear they spend more time in their cars than in their homes, Doug Carter is cruising in the fast lane.

—Joseph A. Harb



## Junk Computer Or High Tech Jewel?

Ever since the beginning of the personal computer explosion there have been grim jokes about trying to sell an obsolete or discontinued machine. More profitable to sell it as a boat anchor, goes one quip.

Alexander Randall V, for one, was not amused by the jokes. The computers still worked; they could still help people unable to afford new ones. Randall, 34, saw an opportunity to start a service.

In 1983 he created the Boston Computer Exchange for people who wanted to buy or sell used computers.

Today Randall and 10 employees arrange trades of 100 different brands of microcomputers and related equipment over a computer network that extends to 41 cities and 140 foreign countries. The exchange charges users a commission of 10 percent of sales. For 1986 that should amount to \$3 million to \$4 million.

Anyone who wants to sell or buy a used machine in good working order can use the exchange.

On the sell side, that might be a leasing company whose 100 IBM PCs are fully depreciated; on the buy side, it might be a writer or a first time computer user who is content to buy an older and slower machine if its word processing program works.

Randall's success is a tad ironic. Not long ago he was a campus curiosity at Princeton University. Known as Louie Motherball during the early 1970s, Randall was at the center of nearly every campus demonstration, sit-in or free concert. He was not a hard core radical—in fact, his politics have always been conservative—but he owned public address equipment he rented to fellow students.

Why was he known as Louie Motherball?

Randall wanted a name for his service that fellow students would remember, and made one up that sounded strange. "Louie Motherball Productions" fit the bill, with one small problem: "Don't give your business a person's name, unless you want people to call you by that name," says Randall. The name is still listed in parentheses after his real one in the Princeton alumni magazine.

Randall learned another, far more important, lesson from Louie Motherball Productions. Call it the lesson of the missing part.

"Princeton students had a great need to speak, to be heard. But the throughput, the vehicle of address, was miss-

*Alexander Randall V, known as Louie Motherball when he was a Princeton student, helps computer owners sell their used equipment through his Boston Computer*

*Exchange. The company is not restricted to Boston; its network extends to 41 cities and 140 foreign countries.*



PHOTO: RICK FRIEDMAN

ing," says Randall. He provided the vehicle.

The Boston Computer Exchange, Randall says, is like the public address system. It provides a missing part, this time for the computer revolution, not the campus revolution.

Each stride in computer technology leaves behind a supply of obsolete but usable machines. And most first-time users do not need a state of the art computer, says Randall.

But computer stores are reluctant to promote lower-priced used machines that would compete with new computer sales.

The microcomputers themselves are standard and numerous. Buyers know what they are without trying them out first, and unless someone pours honey down the keyboard, they remain in perfect working order long after their technology has been surpassed. The computers usually are still worth more than \$1,000, and they are United Parcel Service-transportable.

Those are ingredients for a market. Randall set out to create it. His wife, Cameron Hall, is a trained economist who, as vice president of finance, is responsible for telling Randall how they are doing.

"I had to marry an economist to learn what a profit is," says Randall.

The company began with a telephone and a personal computer left over from graduate school. A friend donated a database management system to record bids and offers. Randall started attending meetings of the Boston Computer Society, the country's best known and

most influential personal computer users group, and asking if anyone wanted to buy or sell a machine. He took out newspaper ads.

The computer exchange handles the transaction, holding the buyer's deposit in escrow until he or she is satisfied with the computer. It then takes its commission and passes the balance on to the seller.

When the business began to grow, Randall enlisted the business skills of his cousin, Peter Randall. A fellow Princeton graduate and Wharton MBA, Peter Randall left an executive position at Cigna, the big insurance and financial services company, to take over operations for the exchange.

What about competition? They encourage it. "We don't want to fight the competition," says Peter Randall. "We want to join it."

Whatever moves used computers is good for the exchange, says Peter Randall.

Last March the exchange started selling a manual that shows how to replicate the Boston Computer Exchange on a local scale. The manual costs \$500, and 45 copies have been sold. Local exchanges can put large orders, such as a sell order of 100 machines, on the national exchange in Boston, with which they would share the commission.

Randall wants to create a worldwide network of exchanges to bring prices down and put used computers into the hands of every man, woman and child—a better fate than becoming boat anchors.

—Mark O'Brien



## Making It

## PEOPLE

## Sewing For More Than A Song

Years ago they were billed in nightclubs and cabarets as the Hamilton Twins, a tap and acrobatic act. Though they made a good living, they never reached stardom on the boards.

Today their billing, scaled down to the Twins, Inc., appears on labels of their personally designed swimsuits, which are a smash hit on beaches, to the tune of \$4 million in sales expected this year.

All because their mother taught them to sew, back in Brighton, England, in World War II days.

"Starting in 1948, when we were 17 years old," says Gillian (now Mrs. Earl Mitchell), "we toured the world with a nightclub act, and we had to repair our own costumes." Sister Jacqueline (now Mrs. Frederick Baird) adds: "Then one day in 1960, as we were sitting on the beach in Puerto Rico and sewing, people kept asking us where we got the swimsuits we were wearing."

They were bikinis, popular in Europe since World War II but not yet much seen on Caribbean or U.S. beaches. "Too much Puritanism until then," says Gillian. The twins offered to sew a few for the swim crowd.

"It got to where we couldn't handle all the sewing, and we were hiring the women working in our hotel's laundry room to help us in their spare time," says Gillian.

By the time their five-month booking on the island expired, they had designed and sewn bikinis for consignment in many of the island's hotel shops.

At the twins' next stop, Miami Beach, tennis friend Barney Boardman, whose business was investments and real estate, suggested the three of them start a bikini-making enterprise. He found a seamstress, and the twins, in between shows, designed swimwear and shopped for fabrics.

In 1965, the partners, each with a one-third interest, opened the Bikini Shop at Miami Beach. They still operate it as their sole retail outlet.

The twins soon were making more money in bikinis than in show business.

"We had 50 women sewing for us out of their homes in the Miami area," says Gillian. "But the shop, with its three sewing machines and one cutting table, soon was not big enough. When we were in town we were sewing our eyes out, sometimes until 3 in the morning."

A year later the Twins, as the company is called, rented a 5,000-square-foot warehouse in Hialeah, bought more sewing machines and, says Jacqueline,

Twins Jackie Baird (left) and Gillian Mitchell used to be entertainers until they turned their sewing skills into a

thriving Hialeah, Fla., swimsuit design and manufacturing company called—what else?—the Twins, Inc.



PHOTO: DAVID WOODBELL

"invited all 50 women sewing for us to come on as full-time employees. All but two did."

The suits sold briskly in specialty shops and department stores around the country. By 1970 the Twins' production plant had tripled in size to today's 16,000 square feet.

That year the twins also left show business. Gillian in 1968 married Mitchell, an ex-FBI agent now selling real estate, and in 1970 Jacqueline married Baird, a professional golfer. Both husbands still pursue their own careers.

Meanwhile, the sisters, 55, work full shifts at the plant and promote their present line of suits while trying to create a new line for the next season.

"We come up with 100 different designs every year," says Jacqueline, "but in this business you can't be sure just how big sales will be."

Says Gillian: "We are competing with

about 128 swimsuit makers. You almost need a new gimmick every year. This season ours is a swimsuit that changes color in the sun." The solid color Sun-Magic suits are imprinted with specially inked designs that emerge when the sunlight hits the ink, which is impervious to salt water and chlorine.

Sun-Magic suits are among the 1,200 suits made daily at the factory by the Twins' 135 employees. Average retail price of a suit is \$30. With 1,500 retail outlets in the United States, the Twins expect to net \$250,000 this year.

They will stay in the bikini business, although finding new designs and fabrics each year is becoming more difficult for the Twins and its competitors.

"But again the trend seems to be coming from Europe," says Gillian. "And it is the one-piece bikini—just the bottom piece."

—Del Marth



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Person-to-Person calls

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Directory Assistance calls

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Within this Area	Area Code + Number
Outside this Area	Area Code + Number
Local	Number
Within this Area	Area Code + Number
Outside this Area	Area Code + Number
Repair Service	Area Code + Number
Toll Free 800 Number	800 + Number

Operator assistance available on all calls from this telephone.



# To Your Health

*A trek on the wild side can be good medicine for harried nerves.*

By Howard Rothman

**G**ordon Proctor's vacations hardly seem restful. During the last three years, they have included a horseback adventure into Colorado's Weminuche Wilderness and raft trips down rivers through Utah's Cataract Canyon and Arizona's Grand Canyon.

"I do the traditional vacation thing for two weeks like everybody else," says the 44-year-old owner-manager of a chain of paint and wall-covering stores in Rochester, N.Y. "But once a year I also like to spend two weeks away from everything."

Adventure vacations such as those Proctor has chosen are becoming increasingly appealing to harried workers who are looking for physical stimulation and mental release.

"It's a battery-charger for me," says Proctor. "When I come back, it's a total revitalization."

"There's a sense of accomplishment and a natural relaxation that come from being on one of these trips," says Pam Shandrick, promotions director for Mountain Travel, an Albany, Calif., firm that has been organizing active trips worldwide since 1967. "People feel renewed when they get back."

Group adventure vacations got their start in 1901 with Sierra Club expeditions into the then-exotic Sierra Nevada, and received a major push more recently from the success of the Outward Bound program. Since 1961 more than 120,000 people have taken classes at Outward Bound centers in this country.

Due to the early success of these efforts, adventure travel companies and wilderness education programs soon sprouted up across the country. At first, they appealed primarily to youthful outdoor enthusiasts who shunned what they considered the standard sun-and-surf type of vacation. As the nation's fitness mania grew, however, participation in adventure programs soared.

Today guided activities, like canoeing the Minnesota Boundary Waters or trekking in Nepal, as well as innumerable self-directed adventures, are avail-

*The physical and mental benefits of adventure vacations can be enjoyed even by executives who are*

*inexperienced in the outdoors, thanks to firms that specialize in planning and equipment for such trips.*



PHOTO: AMERICAN WILDERNESS EXPERIENCE

able to anyone with the time off and the requisite fee.

"You don't have to be under 30 or experienced in the outdoors," says Dave Wiggins, president of the 15-year-old American Wilderness Experience in Boulder, Colo. While those with expertise may prefer to set off on their own, Wiggins says, firms like his arrange exciting vacations for the wilderness novice. "We're trying to cater to people who love the outdoors but who may not have a lot of experience," he notes. "They can rely on us for trip planning, equipment and knowledgeable guides."

Patricia Mallon, 33, director of marketing for the professional and research division of McGraw-Hill Book Company, claimed no wilderness experience at all when she signed up for a five-day horse packing trip in Arizona last spring. Although she is athletic and enjoys canoeing, Mallon had not ridden a horse since age 11 and had never visited the Southwest. A resident of New York City, she was the first in her circle of friends to even consider an adventure vacation.

So how does she feel after riding into the Superstition Wilderness with an outfitter from the Ron-D-View Ranch near Phoenix? Says Mallon: "The trip was great, and now my friends are all interested."

Richelle Aschenbrener, a registered

physical therapist with the Denver Institute for Sports Medicine, notes that the major health benefit of such trips is often the positive exposure they provide for exercise and the outdoors. "It's such a big turn-on for most people," she explains. "Chances are they'll love what they're doing and get psyched up to continue an exercise program."

Aschenbrener, who will be embarking on a week-long backpacking trip to Yellowstone National Park in September, says people with a history of cardiovascular problems should be cleared by their physicians before signing up for such trips, and anyone with an ailment that may require emergency treatment should probably avoid them. "But for the most part," she adds, "these trips are for everybody."

**B**oth Shandrick and Wiggins say most commercial trips entail no special health or fitness requirements. Application forms generally request current health information, however, and participants are advised to select trips that realistically match their abilities.

More importantly, perhaps, adventure vacationers must be willing to cheerfully accept anything from a week of rain to runaway horses. Says Shandrick: "We do best with people who have a spirit of adventure." ■

Howard Rothman is a Colorado-based writer who specializes in business and health topics.



# Innovators

*Planning for success;  
difficult employees;  
unusual hiring  
techniques; women  
executives.*

By Sharon Nelton

## Lessons In Business Survival

Business survival weighs heavily on the minds of economically hard-hit Texans these days.

One Texan whose enterprise is thriving looks at both his success and his defeat as an entrepreneur and says his experience at each extreme has convinced him there are "three Cs of survival."

He is Charles S. Teeple, who applied for a savings and loan charter in 1982, a time when most other folks thought you had to be crazy to launch an S&L.

Teeple, a self-described "contrarian," had gone into the real estate business eight years earlier after working in the S&L industry in Houston. He thought it would be a good time to buy distressed properties in Houston's "lousy real estate market." He was wrong. Seven months later, the venture a failure, he took a banking job in Dallas. Four years after that, he was hired to head up the real estate division of an Austin investment firm.

By 1982, he was ready to go out on his own again, both in real estate and in banking. This time, Teeple's contrarian strategy succeeded. His Windsor Savings Association celebrates its third birthday this month with almost \$100 million in assets and "a very clean" loan portfolio.

What happened between that initial failure and his current success, Teeple told the recent National Summit for Women Entrepreneurs at the University of Texas at Austin, was that he had learned his three Cs:

**1. Capital.** He underestimated his need for capital the first time around. Although he had investors, he found himself at the mercy of his local bank for his operating needs, and he became discouraged. Now he tells entrepreneurs the importance of adequate capital cannot be overstated. With Windsor Savings, he says, "we've emphasized a strong capital position—twice the regulatory amount." Teeple Properties, his real estate and investment firm, also helped provide him with operating capital.



ILLUSTRATION: JIM STARR—EUCALYPTUS TREE STUDIO

"Capital gives you time to succeed," he says.

**2. Competition.** Knowing your competition means knowing your market so that you can find your niche. Teeple says his second mistake in his earlier venture was not doing adequate market research. This neglect led to bad timing. When he launched his venture, he says, the average owner of real estate in Houston did not realize how bad the economy would get and was not willing to deal.

A year later, when Teeple had pulled out, he says, "a lot of patient money made real super buys."

With Windsor, however, Teeple and his staff continually monitor the products and programs of their competition "so that we can pick niches where we can compete effectively." Windsor cannot offer big banking services but it can emphasize personal service, Teeple says, making "our small size an advantage instead of a negative."

**3. Confidence.** Teeple says that in 1975 he "feared failing too much to succeed. I did not have the confidence to have a 'success' attitude when times

got tough." Fear of failure, he says, prevents most people from becoming entrepreneurs. The intervening years gave him the time to gain experience, strengthen his confidence and become more positive.

"The transition from a fearful follower to a forceful organizer requires an acceptance of risk," according to Teeple. "Without this acceptance of risk and a willingness to fail, there will be little reward for the entrepreneur."

Teeple has found that he can more readily accept the fear of failure and the risk of loss if he takes the time to devise two long-term business plans—a "dream" plan and a "disaster" plan. "Giving equal billing to the bad news is hard on entrepreneurs, because generally we are optimistic people," he admits. But he thinks it is important to plan for the worst as well as for the best.

"Once I had accepted the fact that I could survive disaster, that I had a way out of the ditch, I became a better dreamer," says Teeple. "I found that I executed my positive plan much more effectively."



## Dealing With Those Contrary Contributors



ILLUSTRATION: GREG FITZGIBBON—EUCALYPTUS TREE STUDIO

Everyone is difficult sometimes. But some employees seem difficult all the time. What can you do about them?

According to quality and management expert Philip B. Crosby, these are the people about whom we say such things as:

- "Smedley is a little abrupt and insensitive at times, but he is really a brilliant person."

- "Mrs. Johnson never says a good word about anyone, but she comes in every day and gets her stuff done."

- "The cook whose omelets float off the plate can get away with snarling at the boss—at least for a little while."

The trick, says Crosby, is to deal with such people in a way that reduces their contrariness without hurting their contribution. "It must be done in a way that they understand," he says in his new book, *Running Things* (McGraw-Hill, \$18.95). "And it must be done with the assumption that they don't realize they are a perpetual pain."

Crosby has found that the most effective way is to be honest with people. "You can tell anyone anything if it is done with love," he contends.

He describes one case in which a subordinate consistently turned friendly chats into sessions in which he blamed other employees or argued. Crosby told him:

"Does it occur to you that whenever we talk about something you are working on, it always turns into a confrontation instead of a discussion? I think we need to talk about that. How about sitting down?"

During their meeting, Crosby pointed

out to the employee that his contrariness was interfering with his productivity and gave him examples of how his behavior hindered his effectiveness. When told that his behavior intimidated and humiliated people, the employee argued that he was just putting the job first.

"Fight the job, not the people," he was advised. "I think you are fighting the people." The employee soon began to get the point.

"People go through life without recognizing that what they put forth as a smile, others may read as a snarl," says Crosby. Someone needs to tell them.

## Regional Perspectives On Female Executives

Go West, young woman. Or Northeast. Women executives face less discrimination in those parts of the country, according to a new study at Texas A&M University's College of Business Administration.

In a survey of 782 male and female executives, those in the West were found to be the most accepting of women in management positions, while those in the Midwest were the least positive.

Though a majority of the executives from each region expressed generally favorable attitudes toward women in management, nearly 65 percent of the Western executives and 57 percent of

## Tips On Hiring The Right People

Think of a resume as a "balance sheet without any liabilities," suggests Accountemps, the temporary employment service specializing in accounting, bookkeeping and data processing professionals. Read it from the end instead of the beginning, because "the least flattering material will usually be last."

Here are some other gems from the firm's booklet, "52 Good Ideas on Hiring, Firing and More." (You can get a free copy from Accountemps at 522 Fifth Avenue, New York, N.Y. 10036.)

- "Ignore the cliché against hiring 'overqualified' people. Take advantage of overqualified employees' brains and experience. If you treat them right they'll stay with your company, but don't moan if they leave for a more challenging job. If you've utilized them properly, you've gotten more than your money's worth."

- "An innovative and productive method of interviewing job candidates is to have them answer your questions the way they think their references would answer them. Make note of their replies. Then, when you contact their references, ask the same questions. If any answer differs dramatically, mention the candidate's answer and explore why any differences exist."

- "Forget about interviewing the spouse of a candidate you may hire. Finding one good person is hard enough."

And finally, if you are having a tough time deciding between several well-qualified candidates, "hire the person who wants the job the most."

the Eastern respondents indicated "strongly favorable" attitudes, compared with 48 percent of the Southern executives and 40 percent of the Midwesterners. Fifty-two percent of the Western respondents strongly agreed that women can and do make valuable contributions to management, compared with only 31 percent in the Midwest.

"It may be that executives in the Midwest and South are less supportive of women in business because more of those executives believe women are not serious about moving up the corporate ladder," say researchers Charlotte D. Sutton and Kris K. Moore.



# Direct Line

## Before You Waste Any More Time!

**I**f you have a business-related question and aren't sure where to go for an answer, you can spend a lot of time for very little return. Or you can write to Direct Line.

**W**e've put people in touch with experts from the National Association of Pizza Operators to the National Association of Foreign Trade Zones. We've called on industry leaders like Coldwell Banker or Century 21. And we've gotten the answers our readers needed.

**A**t Direct Line, we'll go to any length to make sure you get the information you need. Ask the reader who wanted to know how to start an automobile soundproofing business. Direct Line found out—in Stockport, England.

**S**o before you waste time looking for an answer, just write to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. We'll find the experts for you.

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### **Nation's Business**

The magazine that works as hard as the people who read it.



# It's Your Money

By Ray Brady

**J**ohn Q. Gray is so embarrassed by the whole incident that he does not want his real name used. Gray runs his own highly successful business, and he has been a shrewd investor over the years. Still, when he saw the price of his bonds dropping, he was dismayed. After all, in a period when interest rates were going down, shouldn't those bonds—a key part of his retirement program—have been going up in price?

That is when John Gray learned about call-ins: The issuer calls bonds back in, pays them off and then issues new ones at a much lower rate of interest.

So many utilities and municipal governments have been calling in bonds that it has caused the bonds of many other such issuers to drop in price. Says Nancy Kimelman, an analyst with the investment firm of Salomon Brothers: "The market has become aware of the potential of bonds being called."

Salomon Brothers says that investors who bought hundreds of utility bond issues—such issues are especially favored by many people planning on retirement income, because they often are considered safer than industrial bonds and their yields are higher than government bonds—are being hit hard. The firm estimates that, this year alone, 218 utilities will call in bonds before maturity. Salomon Brothers believes "only" 112 industrial and financial issues will suffer the same fate.

But what about the rights of bondholders?

The answer is buried in the fine print of those thick, wordy prospectuses that come with issues of bonds. Deep inside there is a statement about the period of time—often five or 10 years—in which the bond can be called, or refunded. Many investors, unaware, buy on the mistaken premise that their payout will continue all through the life of the bond.

There is only one guarantee against this: a clear, definite statement that the bond will not be called before a certain date. Otherwise, you have what is called a "dirty bond," one that could be called early—and cost you lost interest.

Ray Brady is the business correspondent for CBS News.

*Utilities by the hundreds are calling in bond issues before maturity, now that interest rates are down.*

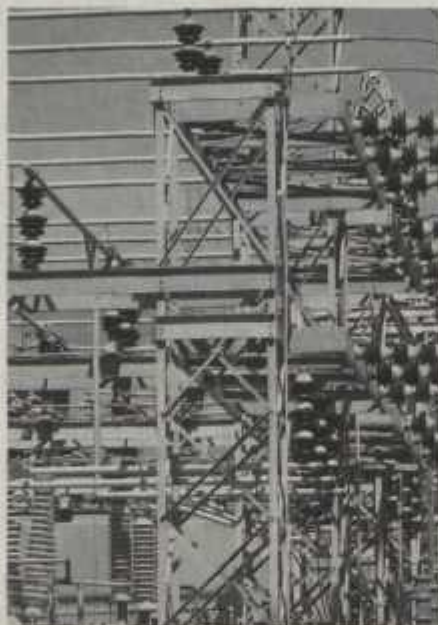


PHOTO: DAVID VALDEZ

As to why call-ins are so common now, you have only to look at the financial pages of your daily newspaper to find the answer. Interest rates are way down, and corporations and municipalities are cashing in on the drop.

Take utility bonds. Most cannot be called for at least five years. As Nancy Kimelman points out, however, five years ago utilities were having to pay interest as high as 17 percent on their bonds. So it makes good sense to refinance now, when rates are down.

Industrial bonds, in contrast, typically have a nonrefundable clause for 10 years, and that time span can make a big difference. "Ten years ago," says Kimelman, "rates were 9 percent or so."

So fewer industrial bonds are being called—so far.

If you are thinking that you should have known all about this—and you didn't—there is one consolation: Many professional investors have that same burned-fingers feeling. Take a \$178 million issue of New York City Housing Development Corporation bonds. They were bought largely by securities firms

*Lower interest rates should mean higher prices for existing bonds. But call-ins can introduce a sour note.*

that sponsor unit investment trusts sold to individuals.

Presumably, these professionals know all angles of the bond business and pry into every nook and cranny of a bond's prospectus. Not necessarily so. Several of the biggest investment trusts in the country—including Nuveen and Van Kampen Merritt—are suing. Their charge: The preliminary official statement on the bond seemed to rule out any early refinancing. A final version of the official statement, issued a few days later, carried different language.

From the viewpoint of the private investor, however, the important statistic in the case is this one: When the recall was announced, the price of a bond dropped from \$1,270 to \$1,000. Reason: If a bond is called, the investor is paid its face value.

So you may take a loss if you paid more than face. And, of course, if you were planning on income from the bond, you are out that.

Another type of bond, the Ginnie Mae, is also losing attractiveness because of the interest rate drops, though not for quite the same reason. Strictly speaking, Ginnie Maes cannot be called. But, with rates down, many homeowners are refinancing their mortgages, paying off the high-interest loans ahead of time. Result: Investors are getting chunks of their principal back on Ginnie Maes earlier than they had expected.

Are there fixed income investments that offer protection against this kind of thing? Yes. Among them:

- Taxable zero-coupon bonds, which are sold at a deep discount from face value. While these can fluctuate in value, if they were called, it would be at face, and the price would rise sharply.

- Most Treasury bonds, which are not callable for many years, if at all. A 30-year T-bond, for example, can't be called for 25 years.

- Mutual funds that invest in long-term governments, though right now these funds carry a low yield.

And remember, the investor has another protection: a careful reading of the bond prospectus, to make sure that—as noted earlier—it clearly says that the bond will not be called before a certain date. *Caveat emptor.* **NB**



# Marketing

*An old product may take on new life and have a better chance in a crowded marketplace than a new brand.*

By Nancy L. Croft

**L**ike an antique brooch tucked away in your grandmother's jewelry box, an old product occasionally needs to be dusted off and looked at in a new light. Given time and attention, the old gem can appear brand new. In today's fiercely competitive consumer product marketplace, reviving old brands can frequently be a less expensive solution to boosting company revenues than risking valuable research and advertising dollars on introducing a new product.

"Before spending a penny on a new product, look into restaging an old one," says Gerald Schoenfeld, president of a New York marketing/consulting firm that bears his name. Years of ad dollar support have built brand awareness of old products, he says. When competition begins to crowd out an old product, a new twist can send it back to center stage.

In the early 1970s Arm & Hammer wanted to resuscitate sales of its oldest product, baking soda. Cooks were spending less time baking from scratch, and baking soda was being pushed to the back of America's kitchen pantries. Arm & Hammer had to give consumers a reason to pull the boxes from their kitchens' dark recesses.

Schoenfeld helped Arm & Hammer rediscover a great idea behind its product by simply updating a 125-year-old ad promoting baking soda not for baking, but for cleaning. Baking soda, the ad said, could be used to clean the icebox and sweeten the cutting board. "That made sense in the 1800s," says Schoenfeld, "but people today only wash their refrigerators once every seven years or when they move—whichever comes first."

For modern consumers who are too busy to clean their refrigerators, the revised ad suggests placing an open box of baking soda inside the refrigerator and freezer to absorb food odors. Results of the ad revival pleased Arm & Hammer, says Schoenfeld: "A year later, 33 million refrigerators had baking soda in them."

Changing consumer lifestyles often prompt companies to update their products' images. Maintaining market share, says Pam Becker, public relations supervisor of the marketing services division of General Mills, means



PHOTO: GEORGE KAMATZIS

altering a product's image to meet these changing lifestyles. Betty Crocker—the wholesome 65-year-old symbol for General Mills—has gotten younger since her first public appearance. "We always try to keep her contemporary and reflecting today's consumers," says Becker.

Betty Crocker's new look—her sixth—shows a woman who appears equally comfortable attending board meetings, volunteer rallies or preparing meals at home, according to Becker. The new portrait was used to introduce the sixth edition of the Betty Crocker cookbook in late May.

Keeping a brand's image modern can also be achieved through advertising new benefits, "whether the product is 10 years old or 110," says Marshall Molloy, who is manager of media relations for Warner-Lambert Company. Warner-Lambert's Listerine has been a leading mouthwash brand for 105 years and currently boasts a 31 percent market share.

Fighting plaque is Listerine's latest job. An ad campaign introduced in 1983 claims that along with regular brushing

*William Steinberg of Tradewell Industries can often find ways to sell an unsuccessful product that the manufacturer may have overlooked.*

and flossing, regular use of the mouthwash reduces plaque 50 percent. Listerine's unit sales rose 12 percent that year.

Timing was the key to success, Molloy says. "It came at a time of increasing awareness of the role that plaque plays in oral disease," he says.

**W**hen all else fails, manufacturers can turn to William Steinberg, whose New York firm, Tradewell Industries, buys a line and sells it through distribution channels the original company may have overlooked.

"Sometimes we have to contact 200 retail organizations to find 10 that are going to take on our inventory," says Steinberg. Tradewell once took an unsuccessful kitty litter made of paper pellets and sold it to horse stables to use as sawdust.

In a field crowded with newcomers, "bringing out a new product is very difficult and expensive," says Steinberg. "If you've already got one in the marketplace, you want to get the most you can out of it." **MB**



# Direct Line

*Information on boat, beauty salon and liability insurance, sport novelty stores, part-time worker coverage and software.*

## Distributor Protection

My appliance company ceased production several years ago and now engages solely in product distribution. Do I need to retain liability insurance for product defects?

*J.R.R., Burlington, Vt.*

State law varies. In some states the distributor will not be held liable for product defects unless the distributor tampers with or alters the product in some way. Many states, however, do hold the distributor liable regardless of whether the product has been altered. In those states, liability insurance would be necessary. You may want to consult your attorney concerning the particular law in your state. In the meantime, you should retain your liability insurance.

## Sporting Life

I am interested in selling professional sports memorabilia. Is this a good idea? How can I obtain licensed merchandise?

*T.R.K., Taylorsville, Ky.*

Jim Day, co-owner of the National Locker Room in Washington, says that this type of business relies heavily on tourism and is best located in a major mall or a hotel area in a large city. To set up a store in a small town, Day advises, be sure you have a market within a 150-mile radius. Does your area have a strong college following that might overflow into professional sports? Look at the clothing worn by the people in your area. Is it generally work- or play-oriented?

For more information on licensed baseball and hockey merchandise, contact the Licensing Company of America, 75 Rockefeller Plaza, New York, N.Y. 10019, or call (212) 484-8807. For football merchandise, contact the National Football League Properties, 410 Park Avenue, New York, N.Y. 10022, or call (212) 838-0660. For basketball products, contact the National Basketball Association, 645 Fifth Avenue, 15th Floor, New York, N.Y. 10022, or call (212) 826-7000.

## Pleasure Liability

I own a yacht and often take prospective clients on sightseeing tours. Should



ILLUSTRATION: CAMERON GERLACH

I include my yacht in my business liability insurance plan?

*F.H., Tamarac, Fla.*

If your yacht is used primarily for personal enjoyment, you may not need to insure it under your business liability plan. The liability insurance that you already have for your boat probably covers those who accompany you as guests on sightseeing tours. Check with your insurance company.

## Wax Coverage Waning?

My insurance agent has told me that no insurance company will cover injuries resulting from waxing in beauty salons. Is this true?

*M.F.L., Middleboro, Mass.*

Phone calls to insurance companies reveal that waxing is indeed covered in some professional liability policies. Ask your insurance agent to research your needs more fully. It may be that none of the companies your agent represents offers such a policy and that the agent is reluctant to spend much time to find coverage. If so, consider shopping around for an agent who can better fill your coverage requirements.

## Part-Time Insurance

I operate a small trucking company, and I have two drivers who work for me only on an emergency basis. Do I need to include them in my liability insurance coverage?

*M.M., Anchorage, Alaska*

Insurance coverage requirements

vary according to the size of your company, whether the trucking operation is your business' main function and whether you carry hazardous cargo, says Marc Rosenberg, vice president for federal affairs at the Insurance Information Institute in Washington.

Most general liability business insurance policies extend such coverage whether the employee is a regular or part-time worker.

Check with your insurance agent to make sure that you are sufficiently covered.

## Program Publishing

I have developed specialized computer software for the magazine industry. How do I market it?

*M.P., Chester, N.Y.*

You can market it yourself, or you can work with a software publisher. For most software writers, the second course will probably be the wisest.

Says Ken Wasch, executive director of the Software Publishers Association, "Most software writers don't have the expertise to market their product. If you wrote the Great American Novel, would you compete with the big publishing houses? Chances are you would ask a publisher to market your book. The same reasoning goes with software."

Unless you have the expertise and the funds to market your program, Wasch suggests that you approach a software publisher. If your program is accepted, you will be paid a 7 to 20 percent royalty, depending on the publisher and your program. For a list of appropriate publishers, write the SPA, Suite 1200, 1111 19th Street, N.W., Washington 20036, or call (202) 452-1600.

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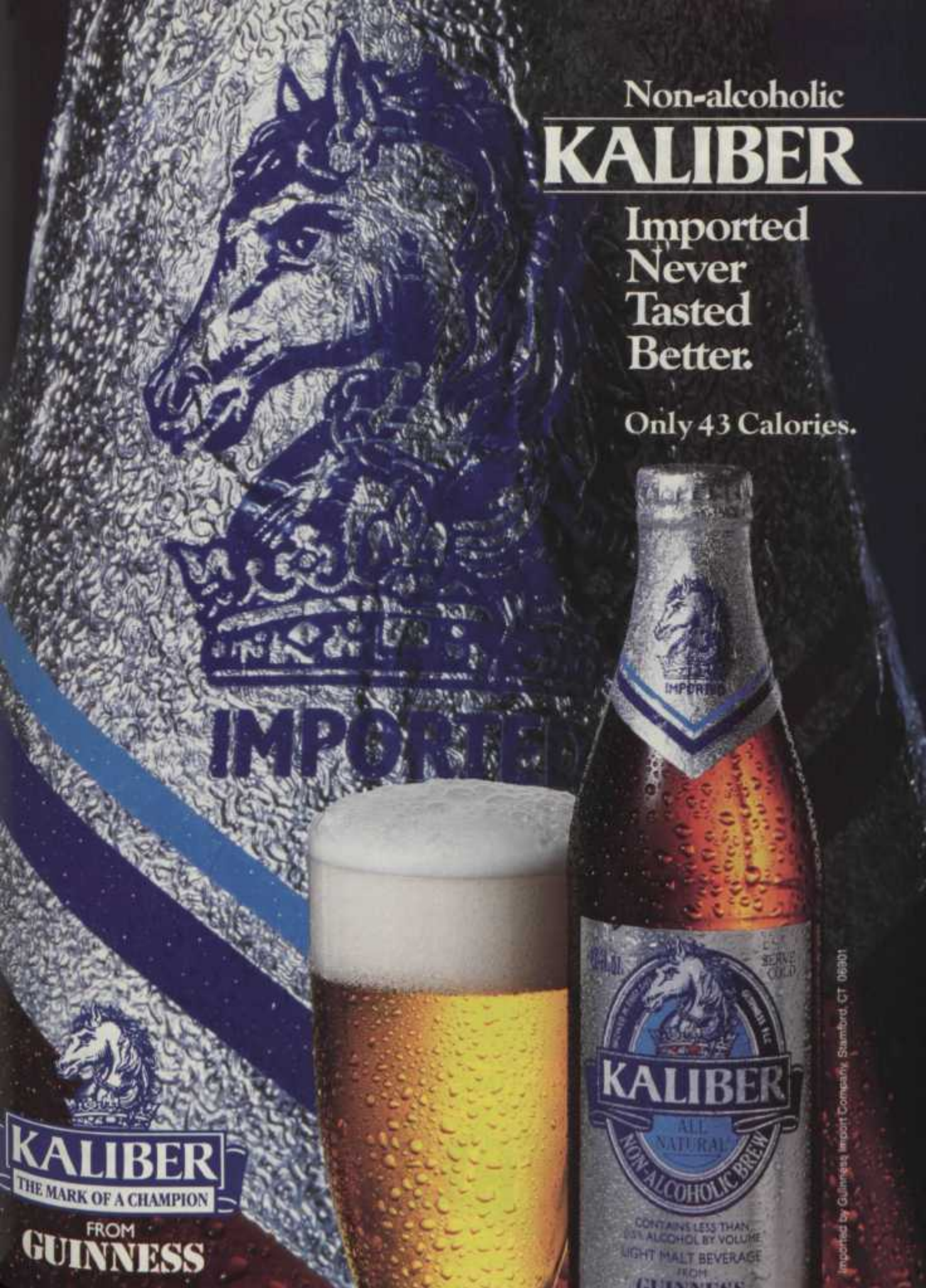


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## MN/3M



# Getting Past The Liability Crisis

By Eileen Z. Joseph

*Businesses are finding ways to cope with the crunch in liability insurance. For some, that means doing it themselves.*

**S**o liability insurance is too expensive for your business these days and, for some types of risks, unavailable at any price. What do you do?

Many business people are canceling all coverage—"going bare"—because they feel premium rates give them no choice. Experts on the casualty insurance industry say big liability lawsuit verdicts plus internal industry problems—huge operating losses (\$5.4 billion last year), consequent inability to underwrite many big risks and difficulties in getting reinsurers to share risks—will keep rates up for some time.

A company without insurance is playing a kind of Russian roulette, knowing that one major claim could force it to fold. But such companies are developing techniques to prevent some liability claims and cope with others that could drag them to court.

Attorney specialists are brought in for the product development process, starting with the initial, design phases; the rationale for every product quality control decision is documented; finished products are plastered with every conceivable kind of warning against unintended use or abuse; and elaborate claims settlement procedures are instituted to keep costs down and the company out of the courtroom.

Other companies are coming up with unusual—and even profitable—solutions to the problem of providing themselves with insurance.

A Hartford, Conn., asbestos removal firm is one such innovator. Because asbestos removal is so hazardous, the ACMAT Corporation's insurer had canceled all its liability insurance.

"It was a definite shot in the head, even though we weren't killed," says ACMAT Executive Vice President Henry W. Nozko, Jr. He says the company, which had revenues in the \$50 million-a-year range, "lost millions" in contracts. It was unable to bid on any new projects for several months. Finally, Nozko found some coverage from another insurer—at nine times the cost of

Henry Nozko is vice president of ACMAT Corporation, a Hartford, Conn., asbestos removal firm that turned the liability crisis into an opportunity. In a joint venture, it

formed an insurance company to provide coverage at reasonable rates to firms like itself. The venture has been a success.



PHOTO: DON FUNKER

the previous policies. That, he says, meant that if ACMAT lived within the estimates it made on new jobs, it would make no profit on any of them.

So ACMAT and two other firms in similar straits formed a joint venture with a privately held property and casualty insurer, Acceleration Corporation, of Dublin, Ohio, to provide much-needed coverage to construction firms at reasonable rates. Capitalized with \$10

million and licensed in Arizona, the venture—United Coastal Insurance Company—now insures the most hazardous types of construction activity in 26 states and the District of Columbia.

ACMAT supports the new insurer by providing inspection and engineering services that help United Coastal avoid underwriting unsound risks.

Nozko says that risk control has "brought losses to an acceptable level"

Eileen Z. Joseph is the managing editor of the *Environment, Safety and Health Series* published by the Bureau of National Affairs in Washington.



## MANAGING YOUR BUSINESS

## Getting Past The Liability Crisis

and kept the company's rates down. "One day, United Coastal will be a Travelers or an Aetna," he says.

Solutions to the liability insurance problem do not come so readily to most companies that take matters into their own hands. They must find suitable financial protection against risks that used to be passed on to insurers.

"We're all headed for self-insurance of some sort or other," says Lloyd Monson, a product liability specialist in the general counsel's office at Amoco Corporation.

Professional risk managers say that if a company wants to self-insure or set up some kind of "captive" insurance program, it should first carefully study all aspects of its operations to eliminate as many risks as possible. It can then decide which types of risks—workers' compensation, health insurance, directors' and officers' liability, for example—it is financially capable of covering.

Experienced risk managers agree that if a company would ordinarily pay

Bruce Parker, general counsel of the National Solid Wastes Management Association, says members are eager

to join the captive insurer the NSWMA is setting up.



PHOTO: T. MICHAEL KEE

at least \$100,000 to buy conventional insurance, retaining the risk through self-insurance is a suitable option. Below that cost level, they say, it probably is not worth taking the chance of having to shoulder a heavy lawsuit verdict burden on your own.

"An inherent purpose of insurance is sharing the risk," says Marc Rosenberg, vice president for federal affairs at the Insurance Information Institute in Washington. "When a company insures itself, it's not sharing the risk with anyone. That's why companies in similar industries gather together as insured groups."

These captive insurers, grouped under the auspices of an established organization such as a trade association, help the participating companies retain some of the profit that would go to regular insurers.

Self-insurance, either through group captives or individual company programs, can be combined with available commercial insurance. The commercial policy—excess insurance and reinsurance are the terms used in the insurance industry—provides coverage that kicks in above the set dollar amount the company itself provides. This combination is expected to become common as more companies retain more risk and buy insurance only to cover part of their exposures.

Many reinsurers are foreign—Lloyd's of London is the most widely known. But the reinsurance market, too, faces hard times. In recent months, Lloyd's has stopped underwriting U.S.

risks. The Weaver syndicate of Lloyd's announced a moratorium after it reported that 100 percent of its losses for 1984 and only 12 percent of its premium income were from the United States.

Bruce Parker, National Solid Wastes Management Association general counsel, says captive insuring is so popular among NSWMA members that, for them, "it's the hula hoop of 1986." The members are hazardous waste cleanup contractors who, like so many other business people, have been unable to obtain reasonable coverage for pollution liabilities.

The association is forming a captive insurer to provide financial protection for the environmental impairment liabilities its members need. Once operative, Waste Insurance Liability Ltd. will offer qualified members \$10 million pollution liability coverage for \$100,000 annually, subject to an annual \$1 million deductible.

Under present law, nonmanufacturing companies cannot form a captive unless it meets the requirements of each state the companies operate in. A captive of manufacturers can insure them in every state, provided it meets the capitalization requirements of the one state it is registered in. Vermont has the lowest capitalization requirement—\$250,000—so it is understandably popular as a home base for manufacturers' captives.

Cheryl Janson, executive vice president of the Insurance Administration Center, in Park Ridge, Ill., a consultant

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for 98 trade associations of product wholesalers and distributors, says the reason more captives are not springing up is easy to understand: They are unable to raise enough capital to cover potential losses without participation of a reinsurer to spread the risks.

In announcing its moratorium on U.S. business, she says, Lloyd's of London set off a domino effect of foreign reinsurers not participating in U.S. markets, bringing about a shortage. "If the Lloyd's Weaver syndicate won't accept the risks, nobody will," she says, because the syndicate sets the pace in the foreign reinsurance market. U.S. reinsurers are now serving only their best clients and most predictable risks.

**B**esides going bare or self-insuring on an individual or group basis, there is another route for business people who have decided to do something about the liability problem: political activism. Many are supporting the drive for passage of federal legislation that would create uniform product liability standards in all 50 states. Many, too, are becoming active in the coalitions that are forming in state after state to bring about changes in the tort laws, and resulting verdicts and awards, that have been so much of a factor in driving up the cost of insurance.

Such efforts seem to be having an effect: Californians, in a public referendum in June, passed Proposition 51, which limits a defendant's exposure to punitive damage awards in personal injury and product liability lawsuits. This measure effectively ends the days in California when defendants with "deep pockets" were assessed for full punitive damages, regardless of share of fault.

But until such measures become more widespread, companies are going to have to use every available creative solution to the liability mess. Among them:

- Reduce or eliminate insurance that costs too much and replace coverage by other means—i.e., risk retention methods. Reduce costs for necessary insurance by increasing deductibles.
- Don't waste premium dollars buying more coverage than you need. Even if you have been paying a lofty premium, your insurer will pay only a certain, fair replacement value on older, depreciated machinery in case of a loss.
- Invest in items that will control loss by reducing its potential magnitude or preventing it—for instance, an

extensive sprinkler system, fire extinguishers and smoke detectors at frequently spaced intervals.

- Make employees loss-prevention conscious: For example, enroll company drivers in defensive driving classes. This may reduce your vehicle fleet insurance rate. Ask your carrier for other rate reduction techniques.

- Hire a risk manager whose full-time job is controlling losses and researching funding techniques. Then you won't have to take the first insurance premium rates you are quoted for lack of shopping time. ■

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# Where I Stand

*Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.*

## 1. Retain An Independent SBA ?

The White House Conference on Small Business this month will debate the question of abolishing the Small Business Administration as an independent government agency and shifting some SBA programs to the Commerce Department. Advocates say that most entrepreneurs never seek the SBA's help and that ending its independent status would not have a major impact. Opponents counter that it would be shortsighted to eliminate an agency that provides help many small businesses cannot obtain in the private sector. Should the SBA be retained in its present form?

## 2. Moratorium On Tax Law Changes ?

With expected enactment this year of the sweeping tax reform legislation now pending, Congress will have approved six major tax bills in six years. Many business people welcome the reforms but say constant revision of tax law creates uncertainties that hinder investment and economic growth. Others say that the tax code needs constant updating to meet changing conditions and public demands. If tax reform is approved, should there be a five-year moratorium on changes in tax law?

## 3. Extra Payment For Social Security ?

Social Security benefits go up automatically if the inflation rate is 3 percent between the third quarters of two successive years. That rate is expected to be no more than 2 percent this time. Nevertheless, Congress appears determined to vote a \$4 billion election-year increase. Opponents say the escalator was created to remove politics from decisions on increases. Advocates argue that Congress should exercise its own discretion when a cost-of-living rise is insufficient to activate the escalator. Should Congress vote an extra Social Security increase?

## Verdicts On Forced Unionism, Commercial Satellites, Pentagon Purchases

*Here is how readers responded to the questions in the June issue's Where I Stand poll.*

	Yes	No	Undecided
Should Congress prohibit contractors from having union and nonunion affiliates?	9%	88%	3%
Should the private sector have a chance to compete against NASA for the business of launching commercial satellites?	82%	11%	7%
Should Pentagon procurement rules be bound by achievement of social goals?	17%	72%	11%



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## COMMENTARY

# Congressional Alert

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

## ISSUE

## BUSINESS IMPACT

## BUSINESS MESSAGE

## Tax Reform

The Senate tax reform legislation is more beneficial to business than the House bill (H.R. 3838). Parts of the Senate measure could be improved, however. They deal with the corporate minimum tax, repeal of capital gains for individuals and provisions for eliminating deductions next January, though cuts do not take effect until six months later.

House and Senate conferees: Reduce the amount of depreciation in the minimum tax calculation, retain present capital gains treatment and make both tax rate cuts and elimination of deductions effective as of January 1.

## Pensions/ Employee Benefits

Employer-paid benefits to workers are threatened by tax reform proposals to curtail tax exemptions, mandate terms of coverage and increase administrative burdens on employers.

House and Senate conferees: Maintain the tax-exempt status of employer-paid benefits. Support use of tax incentives to encourage the private sector's employee benefits system. Oppose provisions that would burden employer-sponsored retirement plans. Businesses must be allowed to fund pension plans to pay promised benefits.

## Freedom Of Information Act

Legislation sponsored by Rep. Glenn English (D-Okla.) would enable businesses to defend proprietary and confidential information provided to the federal government but subject to public scrutiny under the Freedom of Information Act. Under the bill, H.R. 4862, government agencies could not release information until they had notified affected businesses, which would have the right to court review of the decision to grant access to that information.

Members of the House: Support H.R. 4862, which would protect businesses' confidential information. Disclosure of such material could impair the legitimate commercial, financial or research interests of companies that submit data to the federal government. This bill would safeguard the rights of such companies, while allowing the public the type of access Congress intended when the Freedom of Information Act was passed.

## Product Liability

The federal product liability law proposed by the Reagan administration would help ease some of the problems businesses face in the current liability crisis. These include escalating insurance costs, excessive litigation and enormous damage awards. The administration's proposal to reform and unify the tort system would mark major progress toward eliminating the abuses that have brought on the liability crisis.

Members of the House and Senate: Help stabilize the legal progress by supporting the administration-backed legislation to create uniform product liability rules. The costs and complexities of litigation should decrease if this bill is enacted.

## Parental & Disability Leave

Employers would be required to grant up to 18 weeks' unpaid parental leave to employees on the birth, adoption or illness of children and up to 26 weeks' disability leave, under terms of a pending bill. Companies would be required to continue health coverage for those workers during their absence and reinstate them in the same or similar positions upon return. Smaller businesses could find this legislation devastating, while all employers would face increased litigation.

Members of the House and Senate: Maintain the voluntary, private-sector system of employee benefits. This arrangement gives employers and employees flexibility in determining the best mix of benefits and wages. Mandated benefits do not give workers more coverage; they rearrange existing coverage in a manner that can penalize some workers while helping others.



# Setting A New Course

By Sharon Nelton

*When Bob and Ruth Kehl, the National Small Business Persons of the Year, bought an old boat, their business grew, and they became tourism promoters.*

**W**hen they launched a Mississippi riverboat cruise business in Dubuque, Iowa, in 1973, Robert and Ruth Kehl did not know they were also launching a tourism boom in their area. Their first concern was to preserve their own thriving restaurant and catering business.

Their 325-seat Roberts Smorgastable had been serving groups of tourists and schoolchildren who came from Chicago via the Burlington Northern Railroad to tour historic Dubuque and nearby Galena, Ill. Many tourists also came by bus and train to ride the *Julie N Dubuque*, an excursion boat for which the Kehls did catering.

In the early 1970s, the railroad decided to eliminate the tour service. And not long after, the boat's owner, who believed he would not have enough passengers without the trains, moved his excursions downriver. It was obvious to the Kehls that the business they had so successfully nurtured for 13 years could die for want of customers.

"We had to do something to get the people back in town," says Bob Kehl.

With \$22,000 of savings, they bought a secondhand 150-passenger paddle-wheeler, renamed it the *River Rogue* and started their own scenic cruises of the Mississippi. They called their new business Roberts River Rides. (Because people stumbled over the pronunciation of Kehl—it rhymes with kale—they chose a modification of Bob's first name for their businesses.)

Roberts River Rides has grown to a fleet of three paddlewheelers capable of accommodating a total of nearly 2,000 passengers at one time. The company has 250 employees in season—April through October—and annual revenues of more than \$6 million. It expects to draw more than 250,000 tourists this year—up from 170,000 last year—who will pay from \$5.50 for a 1½-hour ride to \$69.60 for an all-day (12-hour) cruise between Dubuque and Bettendorf, 100 miles to the south.

The Kehls, who operate a gift shop and lounge next to their boats' boarding area, have transformed tourism in northeast Iowa.

"Iowa was never a destination until we got the boats," says Bob. "It used to be just a travel-through state; people

*Ruth and Robert Kehl of Dubuque, Iowa, revitalized the tourist industry in northeast Iowa with their Mississippi riverboat cruises, Roberts*

*River Rides. The business is expected to attract more than 250,000 passengers this year.*



PHOTOS: TOM ROBERTS

didn't even think about stopping." Now, he says, people come from as far as Florida and California for Roberts River Rides.

Two years ago the Iowa Travel Council named the business the state's top tourist attraction. And last May the Kehls became the first husband-wife team chosen National Small Business Persons of the Year by the U.S. Small Business Administration. Because both partners were recognized, Ruth also was the first woman to receive the national SBA honor.

The national winner is chosen from among award winners in each state, Puerto Rico and the District of Columbia. Criteria include staying power, growth in sales and number of employees, innovativeness and response to adversity.

Bob and Ruth Kehl are "almost a fairy-tale story," says Robert K. Apel, executive vice president of the Dubuque Chamber of Commerce. When they started the riverboat company, he says, they were "kind of in the wilderness. You had a couple of small attractions, but you really couldn't get any-

body excited about looking at tourism as an industry."

Northeast Iowa has been hit hard by the slumps in agriculture and manufacturing. Roberts River Rides' success and Bob Kehl's persistence in urging business to get more active in tourism "have had a tremendous—almost incalculable—effect," says Apel.

Teri Reese, manager of the Dubuque Convention and Visitors Bureau, a division of the Dubuque chamber, credits the Kehls' boat rides with spurring creation of smaller tourist attractions and restaurants and especially with filling motel rooms. Dubuque is seeing the addition of two motels this year.

**T**he presence of Roberts River Rides also helped create the climate that brought a dog track to the city last year. Between the track and the boat rides, says Reese, Dubuque drew more than 500,000 tourists in 1985 and is forecasting 750,000 this year.

"Roberts River Rides brought the Mississippi River alive in this area," says Margo Hall, director of sales and



## LESSONS OF LEADERSHIP

The *Mississippi Belle II* is one of the Kehls' two 800-passenger boats. The paddlewheeler's 12-hour cruise between Dubuque and Bettendorf, Iowa, is a favorite attraction.

Both Bob Kehl and his wife, Ruth, are licensed riverboat pilots. Here, Bob, who oversees many of the day-long cruises, keeps in touch with the home

office via radio. Son Kevin, 13, who works part-time in the business, absorbs river lore from his father in the pilothouse.



marketing for the Blackhawk Hotel in Davenport. Along with Bettendorf, Davenport and the Illinois towns of Moline and Rock Island form the cluster of communities known as Quad Cities.

Bob, 51, and Ruth, 44, are both licensed riverboat pilots, but, Ruth admits, "I was not very fond of water till we got the boats."

When he got out of the Army in the late 1950s, Bob leased and operated a drive-in for one summer in Sigourney, Iowa. Still in high school, Ruth met him when she became one of his carhops. They married the August after she graduated in 1960 and moved to Dubuque, Bob's hometown. They started their restaurant in November.

**T**hey had been running the *River Rogue* for four years when they decided to build a bigger boat. "That was probably our hardest decision," says Ruth, recalling that Dubuque was still not a tourist town. "Everyone thought we were crazy."

They had the \$350,000, 377-passenger *Spirit of Dubuque* built in Louisiana and launched it in 1977. By the time the boat was in Dubuque, their bookings told them it was already too small. They also introduced a once-a-week prime rib dinner cruise that became so popular it is now offered every night.

A much easier decision, the Kehls agree, was the one to build a \$2 million, 800-passenger vessel. Constructed in Pensacola, Fla., it was launched as the *Mississippi Belle* in 1984, and with it, the Kehls initiated their day-long cruises.

They made another "easy" decision this year, having the 800-passenger *Mississippi Belle II* built at a cost of \$3 million. The *Belle I* was renamed the *Quad City Queen* and docked in Bettendorf, where some cruises originate. (The old *River Rogue* had been sold at the end of the 1976 season.)

Until two years ago, says Ruth, the company's vice president, she and Bob, the president, had the largest catering business in Dubuque. But they have given up the restaurant and catering business to concentrate on the riverboats. Their experience in food has served them well, however, since they still prepare all of the boats' meals in their old restaurant building. "We go through 120,000 pounds of prime rib a year," says Bob.

In Dubuque, the boats are boarded in the Ice Harbor, so named because, in the days before refrigeration, ice was cut there during winter months. When the Kehls came to the harbor, adjacent land they bought was occupied by a junkyard, railroad ties and a warehouse that once belonged to a shipbuilder.

The Kehls donated the warehouse to the Dubuque County Historical Society, which turned it into the Riverboat Museum. Part of the museum is the 277-foot *William M. Black*, one of the last of the steam-powered sidewheelers.

Without the help of their five children, say the Kehls, they would not have been able to expand as much as they have. All have worked in the business at least part-time, and three have taken on significant responsibilities. Bob, Jr., 25, manages the *Spirit of Du-*

*bue*; Tina, 23, manages the *Quad City Queen*; and Dan, 20, is deck manager of the *Belle*. The youngest of the brood, Kevin, 13, often works in the gift shop. Daughter Cyndi, 22, is now a speech therapist living in Colorado.

Attention to detail and willingness to listen to customers and give them what they ask for, says Bob, Sr., accounts for the Kehls' success. If someone requests a reserved sign on the third table from the bandstand—some of the cruises feature dancing—or a window seat on a particular side of the boat, Bob sees that he gets it.

"They lead by example," says the Dubuque chamber's Apel, who notes that Bob works 60 to 80 hours a week and expects his family to do the same.

**A**ctually, say Bob and Ruth, they each work at least 90 hours a week during the tourist season, when they are on the job seven days a week. Winters are only a little slower; then they are on the road for dozens of travel business shows around the country at which they drum up trade. They have more than 100 billboards promoting Roberts River Rides in Midwestern states and also advertise on radio. The boats have been reserved for proms, anniversary celebrations, birthday parties and even weddings.

The Kehls say they never intended to be "the forerunner in tourism" when they started their business. Things just developed that way.

How do they feel about the leadership role thrust on them?

Answers Ruth: "It's great." **18**



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# Editorials

*Give us a break (five years' worth) on new tax law tinkering; what you can do about the young worker shortage.*

## Let's Take A Time-Out On Changes In The Tax Law

A major overhaul of the federal tax code cannot, and should not, be a speedy process.

Each proposed change must be evaluated for its potential impact on taxpayers generally, on various categories of taxpayers, on the economy and on various sectors of the economy. Suggested revisions must be measured against standards of fairness and simplicity. That all adds up to a time-consuming process, if the end product is to achieve its goals.

But there is a negative aspect to that measured approach.

While tax policy is being decided slowly and methodically, businesses face great uncertainty on how tax law changes adopted tomorrow will affect investment and other financial decisions they are making today.

This is not an isolated problem. President Reagan's 1981 economic program

established strong and long overdue incentives for business investment. Changes the following year rolled back some of the more important gains.

The first version of the current tax reform proposals was made public in late 1984, and there have been three major variations since. There will be still another when the House and Senate agree on a compromise version of the drastically differing measures each has now passed.

Altogether, this is not a stable climate for business decisions in which tax considerations play a part.

Congress is expected to enact by ear-

ly fall the most sweeping tax reform bill in 40 years. Passage of this bill will mark a logical point for calling a time-out in the constant revision of tax law that has been going on for years.

A five-year moratorium on substantive changes would be reasonable. It would give businesses a period of certainty and stability for planning and would allow taxpayers generally to digest the momentous changes that will result from the current tax reform legislation.

After all, there is nothing in tax law that says it has to be in constant turmoil.

## Avoiding A "Pervasive Mismatch" In Employment

During the sharp downturn of the 1970s and early 1980s, there was serious doubt that the economy could continue to generate enough jobs for the large numbers of young people pouring into the work force.

The employment outlook was bleak. But a new national administration implemented a market philosophy that brought about a strong recovery. Nearly 10 million jobs have been created in the past four years alone.

While the economy was turning around, however, the vast pool of young workers began to shrink. And it will continue to shrink well into the next decade.

The problem is not only one of absolute numbers, as this month's cover story explains (page 18).

It is a combination of the decline in the overall number of young, entry-level workers and an increase in the ranks of those within that group who lack such basic work skills as the ability to read and write.

William Kohlberg, president of the National Alliance of Business, warns of "a pervasive mismatch between work-

place needs and work force capabilities." The answer, of course, is to provide the education and training that will enable all young people to enter the world of work with realistic expectations of advancement.

Business has already assumed a leadership role in a wide range of programs to give young people, particularly those who might otherwise drop out, an opportunity to acquire the education and training they will need to find promising jobs. Some businesses have set up such programs within their own organizations. Others are helping to plan, organize, finance and run community-wide projects.

These efforts should be recognized, but they should also be expanded.

Volunteers are needed in virtually every community for programs to improve public education and to provide vocational training, remedial teaching and on-the-job experience for disadvantaged youths. There is no better way for business people to make a lasting contribution to society than by devoting time and talents to making such programs succeed.



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A vintage Olivetti 1016 typewriter, shown from a front-three-quarter perspective. The machine is light-colored with a dark keyboard and a sheet of paper inserted into the carriage. The background is dark and out of focus.

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